

KyivPost

# REAL ESTATE

May 26, 2017, Vol. 1, Issue 1

**A guide to what's hot  
and what's not in the  
real estate sector**



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# Editor's Note

## Welcome to our first real estate guide

The Kyiv Post has been wanting to cover the real estate sector more intensively for a long time, but we wondered if there would be the readership demand and advertising support to do so. Instead of waiting, we decided just to forge ahead with the hope that, if we build it, they will come. And they did. So we will do this again, hopefully four times a year like our Legal Quarterly, which we launched in 2015.

Real estate is a fun topic to write about because it reflects the state of the economy and people's hopes. On the residential side, the biggest investment most people make is the purchase of their homes. On the commercial side, those who build hotels, business centers, shopping malls and industrial properties are often the great risk takers of society. They help define not only business, but also the architectural beauty (or lack thereof) of the city.

There is much to write about as the Ukraine real estate market matures. Currently, the market is depressed, with most new building taking place in the residential sector.

In America, real estate is a multitrillion-dollar industry that employs millions of people. But in Ukraine, real estate is perplexing and non-transparent, reflecting the nation's gray and distorted economy. Basic property and tax data that are public in the West are considered private in Ukraine. Americans enjoy high rates of home ownership because they can borrow money cheaply — 30-year loans at roughly 4 percent interest nowadays. By contrast, mortgage lending is practically dead in Ukraine because of high interest rates and no reliable credit scores, creating risks most bankers won't take. It's amazing that people save up and pay the entire selling price for their homes at once.

Ukrainians got to claim ownership of the homes they lived in after the Soviet Union collapsed, a reasonably fair redistribution of wealth from public to private hands. But today, while the market will sort out the commercial sector, Ukraine clearly needs a residential real estate boom — more new homes built that people can afford to buy.

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

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Commercial and Residential

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An aerial view of Kyiv taken using a drone on March 22. (Ukrafoto)



A view of downtown Kyiv from the top of the Gulliver shopping mall on May 19, 2016. (Volodymyr Petrov)

# Ukraine's property market needs a Zillow

By Denys Krasnikov  
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There's no part of an economy that the smart application of a bit of information technology can't make better, and real estate is no exception.

Take Zillow — the leading online real estate marketplace in the United States. It scours the web for all of the data it can find about real estate deals around the United States, providing users with valuable information about a property's previous owners, price history, tax information, rental prices and forecasts.

So given that Ukrainian programmers certainly have the expertise to create a comparable service for the Ukrainian real estate market, why doesn't Ukraine have its own version of Zillow?

It's all about market maturity, according to Andrii Mima, who founded a Ukrainian online service for searching property, LUN.ua. The U.S. real estate market has a data set on property in the country that goes back at least 100 years. There's nothing of the kind in Ukraine.

"In America, I can't sell and you can't buy a property without real estate agents, who will document our deal and then officially register it," Mima told the Kyiv Post. "And this has been the case, I think, for 100 years. And of course, each property has a price and ownership history."

## Market mentality

Mima agrees that Ukrainian programmers have the technical skills to create a home-grown service like Zillow. The problem is the lack of the relevant data. Zillow, for example, uploads information from the website [realtors.com](http://realtors.com), which was launched and is maintained by the U.S. National Association of Realtors.

Although there is an analogous association in Ukraine — the Ukrainian Association of Realtors or ASNU — the realities of the real estate market in Ukraine mean that reliable data are much harder to come by.

Eduard Brazos, head of committee of information systems and analytics at ASNU, says Ukrainians will, if they can, avoid using a real estate agent, which reduces the amount of data flowing into the market. And while in countries with developed economies and mature property markets a universal database is formed by associations of local realtors, that hasn't happened in Ukraine yet.

Even if Ukrainians' do-it-yourself real estate mentality changes, it will take time for realtors to set up a universal database. The electronic register of ownership rights in

Ukraine was only created in 2013, and not all property is listed in this register yet, Brazos says.

Some data "are still lying around someplace on sheets of paper," he said. "At the same time, Ukraine is a young country, and ownership rights to some property has only just been given — the privatization process is still ongoing."

## Data gap

With no universal database, various websites have stepped in to try and fill the data gap. But they generally are unable to check previous owners or the price history of a property, and differ in the amount of information they offer.

Global OLX is one such website. It offers a range of services, but a large part of the website is dedicated to real estate property ads. According to OLX marketing director Kateryna Onischenko, the website currently has 500,000 ads for buying or renting property. But the website is plagued by fake ads, and the service has been forced to set up a separate real estate department to call users and verify that an ad is above-board.

The problem with the quality of real estate property ads has prompted the company to launch a separate marketplace, Otodom, which ranks real estate property ads from best quality downwards, unlike the OLX website, which ranks ads only by publishing date.

"We'd much rather have quality than quantity when it comes to ads," Onischenko told the Kyiv Post. "It's important to give a full description, give correct information and provide good-quality photographs."

Property consultant Nick Cotton, managing director at a leading real estate company, Cushman & Wakefield Ukraine, agrees Ukraine is a long way from matching the developed economies, but says the market situation is comparable to the ones in Central and Eastern Europe.

Ukraine has no statutory database of transactions or ownership, and there's huge opacity in relation to quality of buildings, Cotton said. Moreover, Russia's war on Ukraine has damaged the economy.

The Ukrainian property market "is obviously very depressed," Cotton told the Kyiv Post. "We see a lot of speculative development ongoing. It's a very long way from U.S. or U.K. levels of transparency." ■

## Non-performing loans as a percentage of all mortgages given in Ukraine from 2014-2017



By Kyiv Post. Source: National Bank of Ukraine

**Many people took out home loans that they could not or would not repay. That's a big reason why mortgage lending has dried up and loans are issued only in hryvnia, which has sharply devalued in since 2014.**



## Sergiy Sergiyenko

Managing Partner  
CBRE Ukraine

## The State of Real Estate

The commercial property market showed an encouraging revival in 2016 despite the challenges posed by a number of internal and external events. What is to be expected of Kyiv's commercial real estate in 2017 and what are the risks for further market development?

### Occupier markets are driven by a revival in consumer demand and stronger business sentiment

The trend of improving occupier markets is set to continue into 2017 across the board. The retail industry will welcome a healthier consumer sentiment despite persisting challenges from the prior years. Retailers felt improvements in trading performance and started to expand moderately in 2016. Warehouse market mirrored the recovery in traditional retail, industrial production, and e-commerce, with ca. 110,000 sq m (+32.5% y-o-y) of annual lease take-up. We expect larger volumes of warehouse transactions in 2017, as several large occupiers are in the process of negotiating lease/purchase of warehouse properties. The office sector is standing on the path of recovery shaped by the improving business expectations which, in turn, are fueled by improving business performance and better macroeconomic outlook. Annual office take-up volume is estimated at ca. 80,000 sq m in 2016 (+38.3% y-o-y), with 2017 expected to produce even better results. Aside from corporate occupiers, an emerging demand from creative industries and freelancers stimulated the expansion of co-working space in Kyiv. We consider this trend as an important shift in approach to workplace solutions driven by the collaborative way the start-ups work, requiring higher flexibility from office space and lease terms.

### Bottle neck in office availability on the horizon?

When we look into space under construction, the clear trend of declining pipeline volumes was recorded in warehouse and office markets, while the volume of shopping centers in pipeline continues to grow and remains one of the highest in CEE. No new large scale office development is expected to begin until a year after prime rate breaks the \$25/sq m/month barrier, which is not expected before end of 2017. With development taking 2-3 years to materialize, a bottle neck is not to be excluded around years 2019-2020. Retail, on the contrary, is expected to produce too much shopping center supply in the next three years, with some empty openings to be expected. Warehouses have a very short development cycle, so no boom-bust fluctuations are expected.

### Prime vacancy decline means focus of occupiers on best space across the board

Prime vacancy in all segments will shrink further this year as key occupiers continue focusing on prime space available at historically low rates. 2017 is likely to be the last year bargain deals for prime office space will be available for the foreseeable future. The warehouse market is expected to reach equilibrium vacancy, as retail continues expanding.

### The capital market is still sluggish, driven mostly by equity from local players

Capital markets have been on a standstill for quite a number of years now. Spare opportunistic transactions will continue taking place in the medium term future, but Ukraine is not expected to join the international investment market before economy becomes open and transparent, judicial system independent and law enforcement reformed to international standards, and, as a result, normal banking system is established. At the same time local players are entering the previously purely international playing field. With local businesses appreciating the relative stability of income generating real estate, a pool of local players is emerging, which is creating a setting for development of an internal pool of professional real estate investors in the medium to long term future. Approach and expectations are yet markedly different, but the change in trend is quite evident and cautiously inspiring.

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Intergal Bud Assistant Commercial Director Anna Laevskaya inspects one of the company's Kyiv residential developments on May 18. Intergal Bud offers installment plans of up to 10 years for apartment purchases. (Oleg Petراسиuk)

# How to buy a home when mortgage lending is dead?

By Josh Kovensky  
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**W**ant to buy an apartment in Kyiv but can't get a mortgage? "Go to a developer," says Oleh Perehinets, a realtor at Kiev Standard.

And that might be the only option, aside from paying the entire selling price in cash — something most people can't afford to do.

Mortgage lending in Ukraine has collapsed, making buying a house or apartment in Kyiv more expensive and more difficult than ever.

The market's stopgap solution is for developers to make deals with trusted banks that allow them to loan money to new residents. With a 50 percent down payment, new owners can enter into a 10-year payment agreement at interest rates starting from 20 percent.

But there are problems: the market is unregulated and rife for abuse as lending decisions are often based more on personal ties than any standardized lending criteria.

## Developing nicely

Apart from a few banks who enacted Ponzi schemes that apparently involved fraudulent mortgage lending, the market has been all-but-dead since the 2008 financial crisis.

The number of mortgage contracts signed in 2007 plunged from 31,405 to 4,424 in 2009, according to Ukrainian Trade Guild, a housing consultant. And it hasn't picked up since then.

Kyivans who want to buy homes on credit are generally without options when it comes to traditional mortgage lending. Instead,

prospective home and apartment buyers have found alternative ways to obtain credit for home purchases. Many of them cut deals with developers.

But developers usually have take-it-or-leave-it conditions, forcing potential borrowers to shop around for better deals. "Only a small amount of developers are offering mortgages, thanks to their strong reputation and pre-arranged agreements with certain banks," said Perehinets.

The most frequent mechanism is for the developer to obtain financing from a bank and then offer 10-year installment plans with a 50 percent down payment to house buyers.

"Mortgages are more and more being replaced by private credit," said Mikhail Artyukhov, the director of ARPA Real Estate.

Another mechanism is called a lease with buyout, in which the developer sells apartment leases as the building is being constructed, while the borrower pays the price of the apartment over 5–10 years.

"Currently, it's only possible to try to support the market, but no single bank has the full capacity to be an active player on the financial market to credit either developers or the population," said Natalia Tikhovskaya, head of Ukrsotsbank's factoring and promissory note division.

But since banks refuse to lend except to trusted developers, the developers themselves risk becoming unregulated banks. "Because the developer is not a bank, it's not its business to engage itself in such long-term relations with buyers," said Alexander Borodkin, an attorney at Vasil Kasil & Partners law firm.

Vasil Kasil and Partners attorney Alexander Borodkin talks in Kyiv on May 17. As banks are wary of restarting mortgages, many Kyivans turn to alternate financial arrangements to fund home purchases. (Oleg Petراسiuk)



While the National Bank of Ukraine regulates mortgages and the State Commission for Securities and the Stock Market covers bonds and other financial instruments, these private agreements are, by their nature, self-regulating.

In some cases, fraudsters have used such schemes to promise to build a large apartment complex. The developer will start collecting down payments from excited Kyivans. But instead of using the money to fund the construction, the scam "developer" disappears, leaving people with no apartment and no cash.

### Developing nicely

Part of the problem stems from the top: developers of new buildings

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## Elite real estate: how the demand has changed during the last two years



*Since early 2017, Ukrainians are increasingly investing in the premium real estate, which for the last two years was able to defend its quality and price.*

Arie Schwartz, CEO of Seven Hills Group

This year, the demand for the elite real estate in Kyiv has begun to grow significantly. As for the structure of demand, 90% of the requests for the elite real estate in March fell on apartments. These are 4-room apartments or apartments with high-quality design in new houses with an area of 150-260 square meters at a price of 2,000-3,500 USD per square meter. At the same time, prices remain stable from month to month. Several factors affected this.

In 2015, when the NBU official exchange rate increased by 52% from 15.78 UAH per dollar at the beginning of the year to 23.95 UAH per dollar in November, it significantly affected the real estate market. According to the State Statistics Service of Ukraine, at that time

the volume of real estate development in Ukraine fell by 19%, and by 3.5% in the housing construction segment. Many residential projects continued to be implemented in the country, but the overall pace of activity was falling. That year in Kyiv, there were 2 times fewer transactions for the sale and purchase of the residential real estate.

Experts did not place their stakes on 2016. The unstable economic situation in Ukraine did not allow counting on the growth of foreign investment in domestic real estate, and the purchasing power was decreasing. After all, those who were going to save money in real estate have already done it. To stay afloat, the developers started to reduce the materials cost and stopped building infrastructure facilities. As a result, there appeared many offers with discounts on the market.

Developers of the elite and business property chose another way. In 2015, while most developers were looking for ways to optimize costs, developers of the elite real estate began to pay more attention to the architecture of their objects, technical solutions, creativity, and usability of the floor plans in order to justify the prices of up to 3,000 USD per square meter. The notion of "elite" real estate itself began to change. Before the economic and military crisis, it was understood as the real estate that is located in the center of the city, has its own yard, security service, and a management company. In Kyiv, such houses are being built in Holosivskyi, Pecherskyi and Shevchenkivskyi districts, as well as in the historical part of Podil and Obolon.

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Ukraine, such approach Seven Hills represents in Park Avenue VIP – complex, that develop a family-like community based on non-stop dialogue. Park Avenue VIP are using global construction quality standards, the latest technology and have extensive international experience. The modern Ukrainian customer became wiser and more demanding. Our aim is to provide smart luxury apartments, which means not only a comfortable location, but also a panoramic view, security system, internal infrastructure, not to mention the additional services. Thus, customer's tendency shows that the demand for "all-inclusive" housing is growing. A current trend in the elite real estate market, which entrenched in 2016, continues in 2017. It is possible that there will be new offers.

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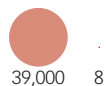
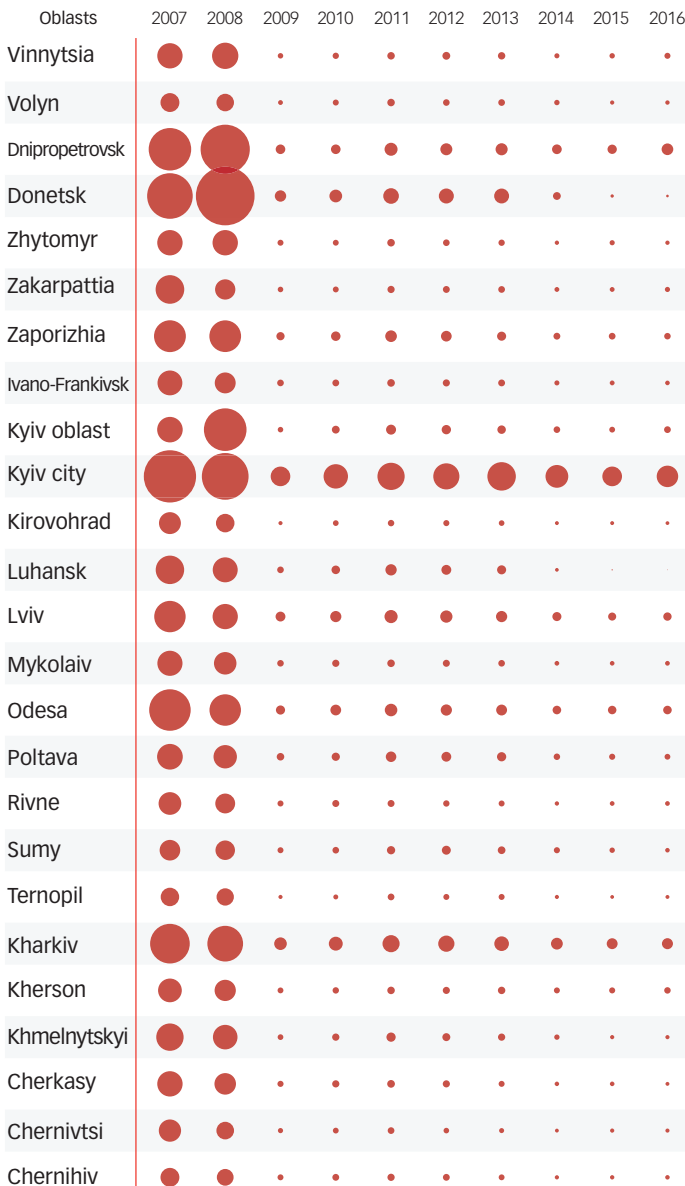
have a hard time finding financing for construction when banks are unwilling to lend.

“It used to be a normal market,” said Borodkin. “But even the performing developers from those times, which are still performing right now, do not have the same options today.”

Only a few banks are still willing to fund construction projects.

The state-owned OschadBank and Ukreximbank finance building by developers KyivMiskBud and UkrBud, which are also state-owned, while private companies either go to trusted banks, draw on their own funds

### Number of mortgage contracts in oblasts of Ukraine in 2007-2016, dynamics



By Stella Shabliovska, Kyiv Post.  
Sources: UTG, Ministry of Justice of Ukraine

Mortgage lending collapsed in Ukraine following the 2008 global financial crisis and never recovered. Ukraine's economic downturn since 2014, exacerbated by Russia's war, worsened the situation.



Construction workers hammer steel rods into the foundations of an apartment complex in Kyiv on May 18. Amid a dearth of mortgage financing, developers have found alternate, albeit risky, means of financing residential construction. (Oleg Petراسиuk)

or essentially crowdsource the costs by taking down payments on future apartments as construction begins.

Intergal-Bud, one of the main private developers in Kyiv, offers installment plans that range from six months to building completion to 10 years.

“Developers have the option of partnering with banks on this,” said Anna Laevskaya, the group’s assistant commercial director, adding that the company is working with Globus Bank and soon with Ukgazbank to guarantee loans for potential buyers at interest rates from 5 to 25 percent.

“Since a lot of the main banks are now negotiating with developers, it’s possible to say that the process is moving forward from a dead point, as the banks have resources again that they can put out,” Laevskaya added. ■



Mikhail Artyukhov, director of ARPA real estate, talks in Kyiv on May 17. Artyukhov argues that there is a glut on the Kyiv real estate market. (Kostyantyn Chernichkin)





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Simon Scott, head of international business of Leslie Jones Architecture, from the U.K speaks during the walk on Kreshchatyk Street in Kyiv on April 4. (Kostyantyn Chernichkin)

# UK architect takes a walk with Kyiv Post

By Veronika Melkozerova  
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**A** chaotic mix of styles. Sidewalks cluttered with cars. A shortage of residential buildings.

Kyiv has these flaws and more, but steps are being taken to overcome them and the city is moving forward, architect and designer Simon Scott, head of international business for Leslie Jones Architecture, told the Kyiv Post.

Scott, whose London-based company provides design services for retail, office and residential buildings, is a regular visitor to the Ukrainian capital. He will also be one of the speakers at the International Architecture Forum, this year entitled “World Architecture: Globalization, Interaction, Influence,” which will take place in Kyiv in June.

During a walk on Kyiv’s main street, Khreshchatyk, Scott shared with the Kyiv Post his views on the city’s problems and what authorities should do.

## Control cars

Scott describes Kyiv as a beautiful and diverse city, but one that needs to respect its public space more, control its parking better and build more new residential buildings.

“I don’t know how many times I’ve been to Kyiv. I come here probably once every two months, and I’ve been working in Kyiv for about six years. So I’ve seen historic changes, the ups and downs of the economy,” Scott said, as he waited for the green

light on a crosswalk at Besarabska Square in the city center.

There are too many cars on the streets in Kyiv and lax parking regulations, Scott said. The cars aren't going away. Heavy traffic is normal for any big city. But transport needs to be seen as the circulating lifeblood that keeps everything else in the city going.

Cars should stick to the roads. On Kyiv sidewalks, pedestrians often find themselves weaving around parked cars. "We're standing on the pavement, which is a nice space, but as with many other areas of the city, it's dominated by cars," Scott said.

While Kyiv authorities say they are focused on improving public transport, the gap between the number of cars being driven on Kyiv's streets and the amount of parking spaces keeps growing.

Kyiv provides 39,000 parking spots in 890 locations. According to the Auto Consulting automobile portal, Kyiv — with a metropolitan area population of at least 3 million people — has 353 cars for every 1,000 residents. That adds up to a lot of cars with nowhere to park.

Scott said many other cities in Europe face difficult parking situations. "Whatever the city can do to mitigate issues of parking would definitely help the public environment," he said.

### Revenues mix

In March, the Kyiv City Council approved a regulation to limit street advertising in Kyiv, ordering the dismantling of



several dozen large advertising billboards across the city. The move met with broad public approval: for many years Kyivans have been plagued by a glut of annoying and tacky street advertising.

But there's a downside too: Scott said street advertising has to have a place because the city needs the income. A prosperous city needs a mix of revenues, he said. "But it has to be under control. Personally, I think that the place we are at the moment has too much street advertising," Scott said, gesturing to the other side of Khreshchatyk Street,

**A man makes his path on the sidewalk in Kyiv, filled with parked cars. (Volodymyr Petrov)**



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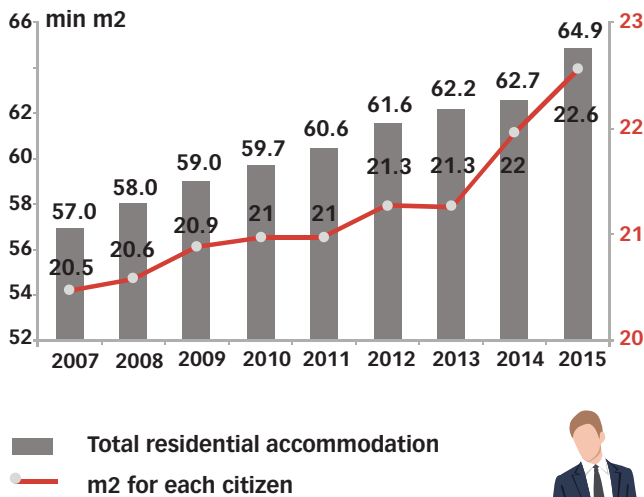
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## Total residential accommodation in Kyiv per citizen, sq.m.



By Anastasia Shevchuk, Kyiv Post.  
Sources: UTG,  
Statistics Department of Kyiv city council



Kyiv's residential housing stock has risen fast in recent years, but is likely to slow because of the difficulty that developers are having in selling new units given lower purchasing power among Ukrainians, who live in smaller apartments than most in Europe.

where buildings were lined with dozens of colorful advertising signs in a mish-mash of different styles. "Maybe the city should start to encourage individuals to do it better," he said.

### City of past

Walking past the Kyiv City Council building, with its bottom three floors of rough-faced red granite blocks, and top floors of beige tiled façade, Scott recalled how fascinated and intrigued he was when he first discovered that a huge number of historic buildings remained in Kyiv, and how they were being ignored.

"There are a lot of buildings, such as the one we're coming up to, which are painted brick — they're everywhere in the city," said Scott, looking at the building of the National Journalists Association, freshly painted pink.

"The style is almost ignored," he said. "Obviously, this hasn't

been painted very well. But you know there is a way to move forward. Just use the historic materials in a different and contemporary way."

The architect pointed to the newly renovated Kyiv Central Department Store TsUM, saying this was a perfect example of the contemporary use of materials in combination with the historic façade. Only the outer shell of the old TsUM department store now remains. The interior has been completely remodeled.

"I think the city should always move forward. Kyiv has some amazing architecture of different styles, or I would say different periods," Scott said. "All of these buildings are a reflection of your heritage. New styles of architecture need to be brought in, (but) they can also be respectfully integrated into the historical ensemble."

### Living space lacking

One problem that Kyiv shares with other cities, including London, is a shortage of residential buildings.

Housing in Kyiv is too often unaffordable — particularly for the younger generations. The central government and local authorities need adopt fresh policies to encourage developers to invest in more residential projects, Scott said.

Some movement from government is detected: In May, Ukrainian President Petro Poroshenko signed a bill to support the construction business in Ukraine. The bill simplifies the bureaucratic procedures for obtaining various permits needed for construction.

### Soviet legacy

Scott is excited to be involved in projects that require an architect to understand the country and devise solutions that match its urban environment.

"The projects we're doing are retail and residential. That's quite encouraging. You're creating not just a shopping space, but a place where people can live in the city," said Scott. "That's why it is good to cooperate with those who know the mentality. I can look around for a long time, but you guys, the people who live here, know the nuances of the city and its people."

Kyiv, as a capital city, has its own nuances. It is diverse but lacks consistency in its architectural style, unlike Paris.

Kyiv is slowly overcoming its Soviet legacy architecturally and culturally. Massive modern skyscrapers are going up, plaques honoring old communists are coming down and pre-Soviet names are being returned to the city's streets.

"Of course, this causes its own problems, because the great and extensive diversity means sometimes things are done that people don't necessary like," Scott said. "But the city has to move forward." ■

### International Architecture Forum

When: June 8–9

Where: Premier Palace Hotel, Kyiv (5–7/29 Shevchenko Blvd)

What: International construction and architecture professionals from different countries will gather in Kyiv to share the advanced architecture ideas with the Ukrainian colleagues. For two days the experts will discuss the modern architecture tendencies and the situation in real estate and construction markets and present their most ambitious projects.

Headliners: Ewa Kuryłowicz, general designer, vice president, Kuryłowicz & Associates (Poland); Fernando Mosca, architect, designer, founder of Fernando Mosca Architect studio (Italy); Ilya Evstigneev, architect, founder of CloseUp architects (Italy); Simon Scott, Head of International Business, Leslie Jones Architecture (The U.K.)

Forum websites: [architecturedesign.com.ua](http://architecturedesign.com.ua), [commercialproperty.ua](http://commercialproperty.ua)

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Two cranes stand near high-rise buildings under construction on Kyiv's left bank on May 16. Many Ukrainians, still distrustful of the banking system, use real estate as a means to store wealth. (Oleg Petراسиuk)



# Real estate agents need persistence, toughness

By Nataliya Trach  
trach@kyivpost.com

While it's not difficult to become a real estate agent, "only the fittest stay in the profession," says Halyna Teryayeva, as she sits on a sofa in her real estate agency Terezy (Scale) in Kyiv.

Teryayeva, 55 and brimming with self confidence and generous smiles, knows what she is talking about. She has been involved in the real estate business for 25 years, rising from agent to agency owner.

"I've succeeded because I love my job. I've always enjoyed the business and its intense schedule, which stopped me from falling into depression and helped me remain afloat in the difficult moments in my life," she says.

## Way to success

Teryayeva compares her job to being on a roller coaster. Although she cannot remember all of her professional ups and downs, she recalls the theft of a big sum of money as her biggest failure.

"In the early 1990s, three million karbovanets (around

\$600) were stolen, and I never got my money back," she recalls. "I cried the entire night then, but this situation also gave me resilience to stress — a necessary quality when working as a real estate agent."

Teryayeva's real estate agency Terezy, which rents and sells apartments in Kyiv's central districts, has 10 employees. She is proud to have the employees of foreign embassies and international firms like PwC or EY among her clients.

"Foreigners are picky clients who appreciate good service," she says.

Teryayeva's path to becoming a successful businesswoman was not easy. After she graduated from the Kyiv National University of Construction and Architecture she worked as an engineer. Then in the early 1990s, the Soviet Union collapsed, and the Ukrainian real estate market started to form. She quit her job and became a real estate agent because she needed to earn more money.

In the early 1990s, real estate agencies worked as

mini-developers, buying apartments for \$2,000 per square meter, renovating them and then selling them on for \$4,000 per square meter, earning \$10,000 or more per apartment.

Teryayeva worked hard, frequently until late in the evening.

“I didn’t sleep much. I did everything — I looked for the apartments, I cleaned them, I learned how to pay taxes, I learned how the banking system operates, and I studied English,” she says. Teryayeva believes her constant learning helped her to stay successful while other real estate firms shut down.

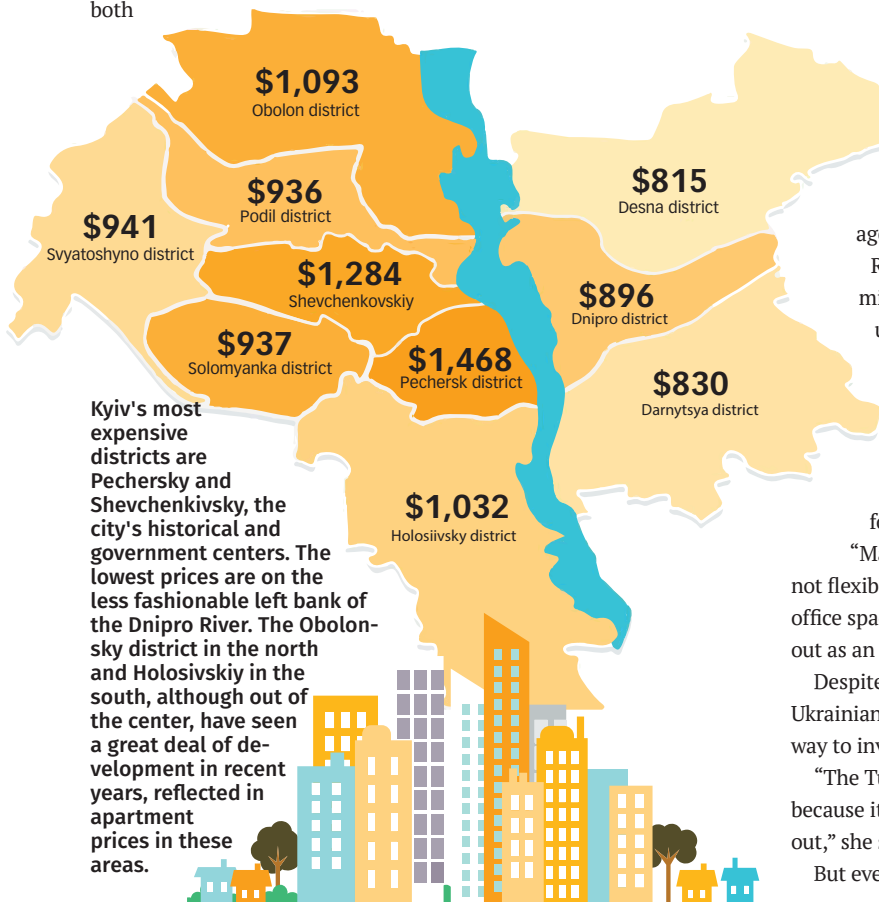
### Good relations

Teryayeva’s own experience has inspired her younger daughter, 23-year-old Anita Solovei, also to work on the real estate market. Solovei owns a small hotel in central Kyiv and is engaged in short-term apartment rentals. She says that it is mainly women engaged in the profession.

“One has to be sociable, very persistent and pushy,” Solovei says, adding that intuition is another important factor in the job of a real estate agent. “Some girls can tell if a client really wants to buy something, or if he has another real estate agent. If a client is reliable, a real estate manager will by all means try to keep them.”

As well as knowing clients well, it’s best to have good personal relations with other agents on the market, both

### Sales prices for new apartments in Kyiv city districts, per square meter



Halyna Teryayeva, owner of Terezy (Scales) real agency in Kyiv, speaks on May 15 about the real estate profession in Ukraine. (Oleg Petراسiuk)

Teryayeva and Solovei say. Teryayeva says that many of her employees have launched their own real estate agencies, but that she has “never treated them as rivals. We often share information with each other.”

Solovei agrees, saying that “if you have bad relations with your colleagues from other agencies, it means you’re not going to find out the latest news about new apartments on the market,” she says.

Another no-no is stealing a fellow real estate agent’s clients. “There should still be some decency,” Solovei says,

### Market and salaries

In Ukraine, the real estate agency representing a buyer and a separate agency for the seller each take a 2.5 percent commission from the sum of a real estate transaction. Of that, the agency takes 60 to 70 percent, while the agent who brokered the deal gets the remainder of the money. Real estate agents don’t receive salaries, but work on commission. Teryayeva says that the best agents in Kyiv can charge up to half of the agency’s 2.5 percent of the real estate transaction.

Before September 2008, when the global financial crisis reached Ukraine, a real estate agent could earn up to \$5,000 a month, while now an agent typically makes around \$1,000, Teryayeva says, adding that the crisis also forced a lot of agencies to shut down.

“Many agencies I knew disappeared because their owners were not flexible,” Teryayeva says. “For example, instead of trying to rent out office space at a reduced price, they could have remodeled it and let it out as an apartment.”

Despite the current economic difficulties, Teryayeva believes that the Ukrainian real estate market has great prospectse. She says it’s the best way to invest money as foreigners know.

“The Turks, Germans and Canadians readily buy Ukrainian real estate because it’s cheap, utility bills are low, and it’s always profitable to rent out,” she says.

But even after so many years on the market, Teryayeva says she still has lots to learn. “I still can’t say I know everything about the real estate market: Now I’m learning from my daughter how to use social networks (for business),” she says. ■

Exchange rate: \$1=Hr 27

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

# To succeed, Kyiv malls need to become entertainment centers



By **Bermet Talant and Olga Rudenko**  
bermet.talant@gmail.com and rudenko@kyivpost.com

**T**he retail sector in Kyiv suffered the most from Ukraine's economic decline since 2014.

But recovery is on the way.

Last year, three new shopping centers opened in Kyiv. The latest and largest one, Lavina, added 127,000 square meters to the total retail stock.

There are about 50 malls in Kyiv today.

Cumulative leasable area of shopping centers amounted to 1.2 million square meters or roughly 400 square meters per 1,000 people, according to Kyiv-based real estate consultancy firms NAI Ukraine and Colliers International. By the end of 2016, vacancy rate surpassed 10 percent.

The hryvnia's recent stabilization has helped considerably.

From 2014–2016, when Ukraine's economy shrunk dramatically, mall owners were forced into desperate measures to keep tenants. They fixed rents in hryvnia and sometimes tied them to a tenant's sales.

By the end of 2016, rents had recovered to \$25–60 per square meter, while some prime retail premises may cost \$70–80 per square meter.

Another 10 shopping centers are commissioned in 2017–2018. If built, they will add another 600,000 square meters of retail space. However, the openings of the malls are known to be delayed often.

The market is still far from saturation, experts





Ocean Plaza, one of the most popular malls, opened in 2012. (Kostyantyn Chernichkin)

say. Kyivans enjoy far fewer square meters of retail space than most European capitals. Despite comparatively low salaries, Ukrainians also love to shop.

### Diversity needed

Some 26,000 people in Kyiv visit shopping centers monthly on average, according to NAI Ukraine research.

Ocean Plaza in Kyiv is especially trendy. It opened in 2012 and now boasts more than 400 shops.

The secret of Ocean Plaza's success is its location near Lybidska metro station and a bus station, said Yevheniya Loktionova, head of the Ukrainian Trade Guild, a consulting firm specializing in retail. It also offers a wide range of popular brands for a wide range of incomes, including Mango, Furla and Calvin Klein.

Other successes are Dream Town and SkyMall.

Dream Town is located in the densely populated Obolon residential neighborhood and close to metro stops.

SkyMall's location is less attractive — on a peninsula between the Obolon and Troeshchyna neighborhoods — but attracts shoppers with large selection of brands and Auchan supermarket.

Yet, even with all new shopping centers opening in Kyiv, there is still plenty of room for competitors who stand out.

“When you have 5–10 malls that are absolutely the same, it isn't saturation,” UTG's Loktionova told the Kyiv Post.

Kira Pruglo, head of research at CBRE Ukraine, believes that the only way for malls to be sustainable is for them to increase their value as places to socialize.

Besides retail shops, this means adding entertainment, services, restaurants and bars.

“Last year CBRE conducted global research and found out that one third of visitors come to malls only to eat or have drinks. It's an opportunity to open authentic restaurants and bars besides standard food courts,” said Pruglo.

Some of the unconventional occupiers of mall space include fitness centers, spas and co-working spaces.

Another example of developers aiming to better serve clients is creating play zones for kids. Factory outlets and value fashion chains are also vacant in the Ukrainian retail market.

### E-commerce not a threat

However, shopping centers have to grapple with competition from the internet.

While China and the U.S. report shrinking

mall shopping traffic due to the boom in online shopping, experts say that e-commerce isn't yet a threat to Ukraine's brick-and-mortar retail outlets.

“In the West e-commerce sector is more developed in terms of customer service, logistics, returns and warranty policy. In Ukraine, there are more significant issues facing retail,” Igor Zabolotskyi, director of retail agency at Colliers International, said.

Vitaliy Boiko, CEO of NAI Ukraine, said that many brands in Kyiv use online retail as an additional sales channel and as a means to draw more traffic to stores.

### New brands

Another factor in favor of more shopping centers in Kyiv is the absence of many international brands on the market. Typically, major international retailers seek to open several stores in different locations at once to lower the costs of logistics.

In 2014–2015, most Ukrainian and international brands postponed entry or expansion plans due to lower sales. Still, 25 new entries hit the market, including Intersport, Uterque (part of Spanish Inditex Group), Converse, Tezenis, Armani Exchange, Kiehl's, NYX, Calvin Klein Underwear and many others.

Most of the 600 brand retailers that operate in Ukraine trade under franchise agreements with local retailers. Big international brands still view Ukraine too volatile of a market for direct presence.

This year, Kyiv's retail market expects more foreign brands, Turkish among them, to be introduced. For instance, it's known that sporting goods retailer Decathlon (part of Auchan Group) will open its stores in Kyiv since Auchan Group is building two shopping centres on Kyiv's left bank, Retail Park and Rive Gauche.

### Investors

Most shopping centers in the pipeline were conceived before 2013, but economic times have prompted second thoughts.

Still, there are acquisitions.

In September, Dragon Capital acquired the 12,600-square-meter Pyramida shopping center in Darnytsya district, but the transaction details weren't disclosed.

Yet, according to CBRE, as long as credit remains tight to non-existent, the investment market will be mostly driven by equity financing — and that's a rare and risky road. ■

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

# What buyer can get for \$50,000 or \$100,000 or \$500,000 in Kyiv

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

**It** is a buyer's market for residential property in Ukraine. The prices, traditionally fixed in dollars, took a big hit since the late 2014 due to the dramatic, more than two-thirds devaluation of the hryvnia since then. So those who get paid in hard currency or have been stocking up money can get a good deal.

The Kyiv Post is looking at what exactly one can buy — and how it compares to real estate

prices elsewhere. We use examples listed on the real estate aggregator Lun.ua.

## \$50,000

Three years ago, \$50,000 could buy a 30 square meter studio in a residential area near a metro station and several stops from the city center. Today, the same money can buy a better location or a bigger place — depending on one's priorities.

For instance, a two-bedroom, 67 square

meter apartment in Darnytsya, a residential neighborhood on the left bank of Kyiv, is listed for \$50,000 but can be bought for cheaper: The ad encourages bargaining. The place is in a nine-story brick building, and the closest metro stop, Vyryltsya, is a 10-minute ride away.

Those preferring location to size can get a studio near the city center or, with some luck, in the center itself. A modest-looking 30 square meter studio at the intersection of Volodymyrska and Saksahanskoho Streets is listed for \$50,000.

A compromise between space and location can be a small one-bedroom apartment of just 45 square meters on Zlatoustivska Street, near the Kyiv Circus. It's on the first floor of a 1966 Khrushchiovka, one of the cheap brick five-story houses built everywhere around the Soviet Union in the 1960s to ease the housing shortages.

**What it buys abroad:** Two townhouses in the Spanish countryside nearby Malaga, a two-bedroom apartment in Umbria, Italy, or a three-bedroom house in Erie, Pennsylvania.

### \$100,000

With that sum, it is time to look at one-bedroom apartments in prestigious locations like the Golden Gate, Lva Tolstoho Square or the best parts of Podil. A 54 square meter apartment on the top fifth floor of a 1936 building on Lysenka Street next to the Opera Theater is on sale for \$95,000, with the possibility of a discount due to the shabby condition.

Small two- and three-bedroom apartments for just under \$100,000 are found on Tarasa Shevchenka Boulevard and Sichevykh Striltsiv Street (former Artema Street). Move a bit farther from the center, and there are larger two-bedroom apartments in the new buildings for the same price. Look at Shulyavka metro station area or Druzhby Narodiv Boulevard, for instance.

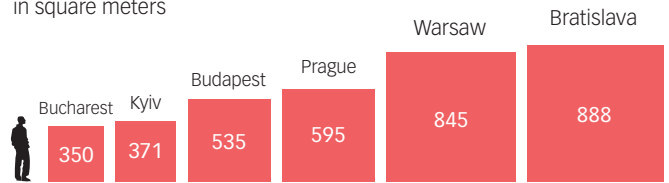
A spacious 104 square meter apartment in a new building next to Holosiivsky Park boasts two bedrooms, a park view and a \$98,000 price tag. The city center is a 20-minute drive away under good traffic.

**What it buys abroad:** A 33-square-meter condo in Bangkok, or a 522-square-meter land lot in Miami, Florida, or a one-bedroom apartment close to the center of Budapest.

### \$500,000

Welcome to the luxury segment of Kyiv real estate. No need to

### Retail stock per person, in square meters



By Kyiv Post. Source: CBRE Ukraine

**Compared to other European cities, Kyiv has much less retail space per capita. However, given Ukraine's sluggish economy and consumers' growing preference for online buying, it's likely to stay that way for some time.**

compromise on space or location anymore: This money can get it all.

For those charmed by Kyiv's main Khreshchatyk Street, there is a two-bedroom, 100 square meter apartment on Liuteranska Street, next to Khreshchatyk but a quieter one.

Fancy a spacious three-bedroom place with a prime location? Look in the Golden Gate area, especially the quiet and prestigious Reitarska Street that boasts several embassies.

Or better yet, check out Vozdvizhenka — a built-from-scratch neighborhood of luxurious houses that copy the historic buildings of Kyiv. The Western press called it “the millionaires' ghost town” because it was built shortly before the 2008 economic crisis and stood empty for years. Today, it livens up with more restaurants, art galleries and shops opening all the time. Here, \$500,000 can buy a two-story, three-bedroom place of 234 square meters

Prestigious Pechersk neighborhood is also wide open. Check out the so-called “government block,” or the area near the Verkhovna Rada, Presidential Administration and Cabinet of Ministers. Here, \$500,000 can buy a 100 square meters two-bedroom apartment with a fancy design.

Also, the same money can buy a house of 250–400 square meters in Kyiv, or a bigger one a short drive away from the capital.

**What it buys abroad:** A one-bedroom apartment in the central part of Paris, a studio or a one-bedroom co-op in Manhattan, or a three-bedroom house on the eastern coast of Cyprus. ■

## Average Kyiv apartment prices on secondary market, per square meter in \$

District	May 1, 2016	June 1, 2016	July 3, 2016	Aug. 4, 2016	Sept. 4, 2016	Oct. 6, 2016	Nov. 6, 2016	Dec. 8, 2016	Jan. 9, 2017	Feb. 9, 2017	March 13, 2017	April 14, 2017	May 16, 2017
Kyiv average	1,171	1,170	1,168	1,166	1,165	1,164	1,164	1,163	1,159	1,150	1,141	1,135	1,135
Holosiivsky	1,091	1,088	1,086	1,083	1,083	1,083	1,082	1,081	1,076	1,069	1,059	1,053	1,052
Darnytsia	919	916	913	912	910	909	908	906	901	892	884	874	873
Desna	994	992	991	990	990	989	989	989	986	981	975	969	969
Dniprovsky	1,031	1,029	1,026	1,025	1,024	1,023	1,021	1,020	1,014	1,002	997	991	989
Obolonsky	1,265	1,263	1,262	1,262	1,260	1,260	1,259	1,259	1,256	1,247	1,241	1,235	1,234
Pechersky	1,779	1,778	1,776	1,774	1,774	1,773	1,772	1,772	1,769	1,759	1,746	1,741	1,741
Podil	1,129	1,126	1,126	1,124	1,124	1,123	1,122	1,122	1,118	1,112	1,107	1,098	1,097
Sviatoshyn	1,007	1,005	1,004	1,003	1,000	1,000	999	998	994	985	973	968	968
Solomiansky	1,008	1,007	1,006	1,003	1,002	1,001	1,000	999	996	989	972	974	973
Shevchenkivsky	1,457	1,456	1,455	1,453	1,453	1,452	1,452	1,451	1,449	1,441	1,436	1,429	1,428

Exchange rate: \$1 = Hr 27. Source: SV-Development



Olena Hlyvynska stands by the window of her apartment on Kyiv's Dnipro River left bank. Having bought the property in August 2015 for \$35,000, she has spent \$15,000 on renovations. She hopes that she'll be able to sell the apartment at a profit and use the proceeds to move to something "bigger and better" on the right bank, closer to the center of the Ukrainian capital. (Oleg Petراسиuk)

# Investor's guide to Kyiv real estate

By **Rahim Rahemtulla**  
rahemtulla@kyivpost.com

Investing in Kyiv real estate can be profitable. But in a market without transparency, it is a potential minefield for the uninitiated.

Properties in the Ukrainian capital come in all shapes and sizes, from the older pre-revolutionary and Josef Stalin-era buildings to the new high-rise developments which are popping up all over the city.

According to local agents, rental demand is strong for the right properties and yields can be extremely high. What's more, compared to other European cities, Kyiv is still relatively cheap, meaning equity growth is likely.

But, unlike in more developed markets, buying property in Ukraine is still by and large a cash business. Extremely high interest rates

on mortgages and an untrustworthy banking system mean very few transactions are undertaken through debt financing.

Other potential stumbling blocks come in the form of political and macroeconomic shocks, of which Ukraine has had more than its fair share in recent years.

The Kyiv Post took to the streets to see what's on offer on the market today for those investors willing to take the risks.

## The downtown fixer upper

What's on offer: A fifth-floor, 52-square meter apartment in need of renovation

Price: \$69,000/\$1,300/square meters

Address: 25 Saksahanskoho St.

Agents say this type of apartment is

typically what investors look for in Kyiv's property market: a "Stalinka" — which means features like 3.4-meter high ceilings — in a highly desirable city center location. This flat is located in close proximity to Kyiv's Olympic Stadium and Lva Tolstogo.

It's a prime target for an investor looking to make rental income. It requires a full renovation, which could cost around \$30,000. But even factoring that in, and without negotiating on the sale price, local agents say it could generate an annual rate of return of up to 10 percent when rented for around \$900 per month. Potential tenants are both Ukrainians and expats at the higher end of the market, where the economic turmoil of recent years has had less of an impact on incomes.

"Believe me, people will grab it," said property consultant Artyom Tikhonov. "Once it's renovated, everyone will want to rent this apartment. The average rate of return on places like this is between 7 and 9 percent, but with this apartment it could be 10."

According to Tikhonov, the quality of the renovation is key. Modernization, which is only cosmetic, or renovations done more than a few years ago are unlikely to be able to attract high rents. But as long as the work in an apartment is done well and is in a good location, it is likely to be quickly rented even if the building it is located in is poorly maintained.

In the case of the apartment seen by the Kyiv Post, the



seller will no doubt be hoping that the availability of off-street parking and a communal lift in the building will add to their chances of a quick sale. At the time of writing the property had been on the market for three weeks, with Tikhonov saying that as it was advertised at below-market price, it would go quickly.

**A view of the kitchen inside a Stalin-era apartment in central Kyiv. Local estate agents say with good renovations, properties such as these can yield 10 percent annual return on investment. (Oleg Petراسиuk)**

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Artem Tikhonov (R) shows the Kyiv Post an empty apartment in the Royal Tower residential complex in central Kyiv. Local agents say such properties see high rental demand after being furnished. (Oleg Petراسиuk)

The office property market is depressed, with high vacancy rates slowing construction and reducing rents.

### The luxury “shell and core”

What’s on offer: A 16th floor, 64 square meters apartment offered in “bare walls” condition  
 Price: \$160,000 /\$2,500 per square meters  
 Address: 34B Horkovo St.— 37D Saksahansko St.

This apartment is located in Royal Tower, a brand-new development in central Kyiv. It’s very much aimed at the luxury sector of the market. With a bar on the ground floor, a spa and a roof garden, it is reminiscent of a five-star hotel.

The price of an apartment here reflects the desirability of such properties, especially among locals who see them as preferable alternatives to the older Stalinkas. They are also used as safe havens for cash, with many people buying an apartment during the construction phase and keeping it empty, with a view to selling it in future at a profit.

“This is where Ukrainians put their money,” said Tim Louzonis of AIM Realty Kyiv. “It’s rational behavior. It

keeps prices higher than you would expect for income levels.”

The apartment seen by the Kyiv Post was offered in “bare walls” condition, a standard feature of many new developments. This means it is sold without and furniture, fixtures or fittings and is little more than bricks and mortar.

Equity growth on such apartments, say local agents, is expected to be higher in the long-term when compared to older properties. In terms of investment, once renovations have been done at a cost of \$500 per square meter, such apartments can typically yield seven to eight percent annual return.

Igor Rubinstein, of Kiev International Realty, says if buying for the rental market, there’s no need to go for something on a high floor with panoramic windows, as this will make little difference to the rent which an apartment can command. For a apartment of about 64 square meters, \$1,500 per month is the going rate.

“Instantly it will get rented. Snatched up, right away. Once it’s listed it will be gone in two weeks,” said Rubinstein.

New developments in central locations are among the most desirable types of real estate in Kyiv. In Royal Tower, only about 10 percent of units remain unsold. But as Louzonis warns, the gradual trickle in of new residents will mean some potential renters will look elsewhere “Tenants don’t want to hear renovation for three years,” he told the Kyiv Post.

### The out-of-town package

What’s on offer: A 13th floor, full-furnished, 50 square meter apartment  
 Price: \$55,000 (\$35,000 initial purchase plus \$15,000 for renovation)/ \$1,000 per square meters  
 Address: 2 Drahomanova St.

This apartment, on Kyiv’s left bank, was bought in August 2015 for \$35,000 whilst still in the construction phase. For the owner, Olena Hlyvynska, part of the

## Key office property market indicators in Kyiv

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

Source: Cushman & Wakefield

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





attraction was that prices were much lower in this part of the city compared to the right bank.

Hlyvynska did her research thoroughly, including looking into the reputation of the developer. She had herself earlier almost become the victim of fraud when trying to buy a place to live.

“I almost bought an apartment on the right bank,” she told the Kyiv Post. “It was in a good location, close to the metro. But then I checked all their documents. They only had permits to build up to the ninth floor. I put down a deposit but didn’t get through with it.”

The apartment she eventually purchased came in the standard “bare walls” condition. To date, she has spent around \$15,000 on the fit out. All the money, including the initial \$35,000 for the purchase, has come from savings or help from friends and family. Hlyvynska says mortgage rates are simply too high to consider a viable option, but she had to find a way to realize what was a long-held ambition.

“I was interested for many, many years,” she said. “When you live in the city for 16 years, renting an apartment every month, you spend a lot of money on it. So one day you just decide to buy your own apartment.”

As an owner-occupier Hlyvynska is less interested in

rental income and is instead banking on equity growth. For the moment, she is the only one living on her floor. The other apartments have been sold but remain empty. She expects that in the coming years as they fill up and the area around her building is developed further, the value of her property will rise accordingly.

“When I was buying this apartment I was thinking, I’ll buy it, I’ll do the renovations, then I can resell it and buy a bigger, better one on the right bank, once I’ve saved some more money,” she said. ■

**A view from the roof garden at Royal Tower, a new high-rise development in central Kyiv. Apartments in the complex sell for around \$2,400 to \$2,700 per square meter. (Oleg Petراسиuk)**

#### **Kyiv real estate: quick facts**

- Since 2011, property prices have dropped around 30%.
- The average price per square meter for a centrally located, unrenovated apartment built before the 1950s is from \$1,700 to \$2,000.
- The average price per square meter of a centrally located apartment in a new development in the center is between \$2,400 and \$2,700.
- Around two-thirds of purchases are made in cash with buyers’ own funds.
- One-third of purchases are made with the help of deferred financing from developers.
- 3 to 4 percent of purchases are made using credit financing.
- Between 80 and 90 percent of apartments in successful residential compounds are sold prior to the completion of construction. In less popular compounds that figure is 40 to 50 percent.

Sources: Kyiv International Realty, AIM Realty Kyiv



After finding a place in Kyiv's economy hotel segment since opening in 2011, Ibis hotel plans to add another three hotels to the market in the next several years. (Kostyantyn Chernichkin)

# Ibis takes charge in economy segment of hotel market

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

**I**bis, a global economy hotel chain, plans a massive expansion in the Kyiv hotel market.

Since 2011, one Ibis hotel has been operating in Kyiv — the 212-room Ibis Kiev City Center on Taras Shevchenko Boulevard.

But by the end of 2017, a second Ibis hotel will open in Kyiv. And two more are to follow in the next several years.

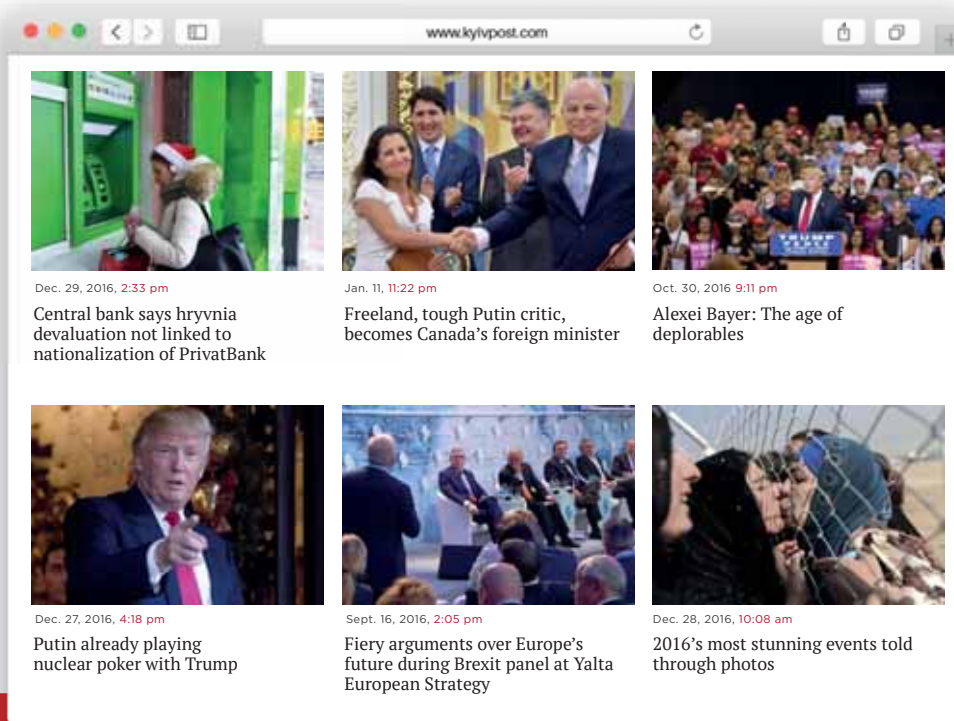
Ibis has found the sweet spot in Ukraine's hotel industry — modern comfort at low rates, usually \$50 to \$70 for a room, for those who don't want or can't afford five-star luxury prices and who don't want to check into dingy Soviet-era hotels.

While Kyiv is rich with premium-class hotels, the economy three-star segment is wanting.

While almost half of the hotel rooms in Kyiv fall into the three-star category, only 23 percent of them belong to hotels with international operators. Most hotels in the class are renovated Soviet-era buildings, like Dnipro, Salute and Kozatsky, all boasting prime location yet little comfort.

Given the abysmal competition, international low-rate chains with a recognizable brand like Ibis are almost destined to be successful.

This is what happened to the first Ibis



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The second Ibis hotel is under construction on the southern side of the main railway station. It is supposed to open by the end of the year. (Kostyantyn Chernichkin)

in Kyiv. Opened in August 2011, within three months it reached 80 percent occupancy, according to Andriy Davidenko, the general manager at Ibis Kiev City Center.

Now it boasts a yearly average 80 percent occupancy, hotel management said. If true, this is twice more than the average occupancy in the Kyiv hotels — which stood at less than 50 percent in the first half of 2016, according to the real estate consulting firm Ukrainian Trade Guild.

**Kyiv once had such a chronic shortage of hotels that people found it cheaper and easier to rent apartments. The city's 110 hotels are well-stocked on the high and low ends. That left room in the economy segment, for such players as Ibis, Holiday Inn and Park Inn.**

### Expansion

Back in 2011, plans were made to open a second Ibis hotel next to the southern exit of the Kyiv Central Railway Station. The construction started, but was frozen due to the EuroMaidan Revolution that drove Kremlin-backed President Viktor Yanukovich from power on Feb. 22, 2014,

### Kyiv real estate, by the numbers

Office: 1.8 million square meters

Retail: 1.2 million square meters

Hotels: 110 hotels.

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

297,300 – 1 room (26.7 percent)

442,800 – 2 room (39.8 percent)

311,100 – 3 room (28.1 percent)

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

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

triggering Russia's invasion of Ukraine and a war that continues today.

The war has hit the hotel industry hard, including Ibis, where 60–70 percent of the guests are business travelers. Davidenko said that occupancy fell 20 percent in 2014, but has recovered since.

If it wasn't for the war, the second Ibis could have opened two years ago, he said.

Now its opening is planned for autumn.

The construction of the 280-room hotel at 6 Polzunova St. is coming to an end, and McDonald's is already operating on its ground floor. The rooms will have a new design that Ibis has begun using in the past couple of years.

True to its focus on the business guests, the new hotel will feature four conference halls of various capacities. Two more Ibis hotels will follow, but there is no dates for their opening.

One, on Peremohy Avenue, will open within the next couple of years. Like the existing Ibis and the one opening in 2017, this hotel will be close to the city central railway station. Internationally, Ibis is known to prefer locations near railway stations, airports or city centers. It will be under a combined operation of Ibis and Adagio, another brand of Accor Hotels corporation.

Another hotel is planned for the Podil neighborhood. But it is too early to speak about its opening, Davidenko says.

Once up and running, all three new Ibis hotels will add 680 rooms to the Kyiv hotel scene, chief operating officer of Accor Hotels in Russia, Georgia & CIS Alexis Delaroff told ABCnews.com.ua last year.

The three-hotel expansion in Kyiv isn't something out of order, according to Davidenko.

"This decision was made based on the occupancy growth and prognosis," said Davidenko. "If you look at other European capitals, they have at least two Ibis hotels, and more often three or four."

### Other hotels

Ibis' expansion plan is slightly undermined by the opening of Park Inn by Radisson on Troitska Square — also close to the railway station — this June.

Kyiv's first Park Inn is of a higher, four-star category than Ibis. It belongs to Rezidor Hotel Group, a competitor of the Accor Hotels.

The presence of Accor Hotels in Kyiv will increase this year: Davidenko revealed that the company is finalizing negotiations to rebrand one of the existing hotels as Mercure, another popular brand that has been missing at the Kyiv hotel scene.

Outside of the capital, the group is about to open a five-star boutique hotel M Gallery in the center of Odesa. And in Lviv, the country's unofficial western capital, Accor Hotels has been operating Ibis Styles since 2015.

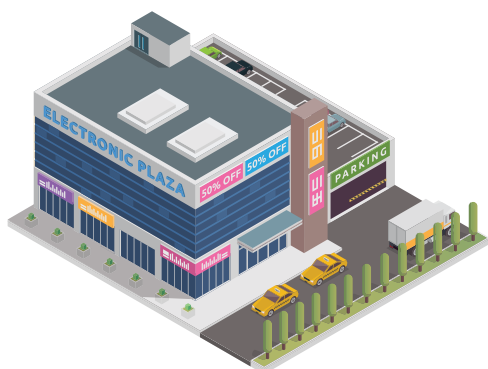
Like other international hotel groups, Accor Hotels isn't an investor in any of its hotels in Ukraine, instead operating the hotels funded by the local investors. ■

# FULL LIST OF SHOPPING CENTERS AND SUPERMARKETS UNDER CONSTRUCTION AND SCHEDULED TO OPEN

IN 2017-2018

Name	Developer/owner	sq.m. GLA	Location	Delivery date
Oasis	Elikon Ltd	—	Heroiv Dnipra metro station	2018
Retroville	Stolitsa Group	91,254	Pravdy ave	Aug.18
RichPort	Local developer	8,300	Poshtova square	n/a
River mall	Vilna Ukraina	55,000	Dniprovska shore road, 10-14	Q1/2018
Rive Gauche	Immochan	72,000	Zdolbunivska str.	2017 (1 phase); 2019 (2 phase)
Blockbuster Mall	Mandarin Plaza	155,000	Bandery ave	2018
Ocean Mall	Mandarin Plaza	103,000	Horkogo str.	2018
Smart Plaza	UDP	15,000	Pobedy ave, 26	2H 2017
Smart Plaza Obolon	UDP	8,800	Tymoshenko str.,21	2018
Vurlytsa	Local developer	142,500	Bazhana ave	2019
South mall	confidential	293,000	confidential	2018
East mall	confidential	150,000	confidential	2018
Hartz	Budhouse	68,000	Zlatoustovska str.	n/a
Lukianovka mall	Arrocano group	47,000	Dehtyarevska str.,7/7a	n/a
Retail Park Petrivka	Immochan	12,000	Bandery ave	Q4/2017
Sky mall (3-phase)	Megaline (general designer)	39,000	Henerala Vatutina Ave, 2T	2019

By Anastasia Shevchuk, Kyiv Post.  
Source: Cushman&Wakefield



Ukraine lacked quality retail space in the first years of its independence, but development in Kyiv, if not in the rest of the country, has picked up since the late 1990s. Even more new projects are expected to come online in the near future as the economy returns to modest growth, despite Russia's war against Ukraine since 2014.

GLA = Gross Leasable Area

# A marriage of two growing sectors: Agricultural firm builds business center that appeals to IT

A photo shows one of the corners of unfinished Astarta Business Center located in Podil, the historic center of Kyiv on May 15. Although the business center will be open for any company regardless of industry, information technologies companies are its main audience. (Kostyantyn Chernichkin)

By Denys Krasnikov  
krasnikov@kyivpost.com

More than 45 percent of 100,000 Ukrainian information technology specialists are concentrated in Kyiv. The fact that there are so many of them affects not just the IT industry of the country but other sectors.

One of these is the property market.

The potential for IT companies to grow in a politically and economically turbulent Ukraine tells property developers that the firms could be a smart bet. Publicly owned agricultural holding Astarta is one of them. Come September, it will open a 45,700 square meter business center with IT companies as its main audience.

“The IT industry is very fast moving in Ukraine,” Yuliia Shchaslyva, rent director at Business Center Astarta, told the Kyiv Post.

The business center will be open for any company, regardless of industry, but IT firms are more likely to expand and seek a new office. And, Shchaslyva hopes, these companies will opt for Astarta Business Center, located in Podil, the historic center of Kyiv.

One of the country’s top seven IT companies has already hammered out a deal with the business center. According to software developer community DOU.ua, it may be an IT company that hires from 1,300 to 4,600 staffers across Ukraine.

The offices in the business center can fit 5,200 people.

The construction process, taken by the State Construction Works under the Ukrainian Verkhovna Rada, consists of three stages. On Sept. 30, two of them will be completed. According to the Shchaslyva, the first stage of the development is already 80 percent occupied by tenants while the second one is 30 percent occupied.

Astarta claims to be an A-class building (not B or C), although Shchaslyva admits that Ukraine has no precise classification model for commercial property.

The class of an office building is usually determined by its location, engineering characteristics, the amount of natural light inside the premises, the operational work of reception, elevators, and availability of parking places.

Among features that may help Astarta become A-class, Shchaslyva lists the amount of natural light in the premises, 19 elevators, and location in Podil. Apart from this, the center will have a first floor with amenities: banks, coffee shops, a canteen and gym, notary public offices, travel agencies, a nursery and even a dentist’s office. There, one parking lot with 100 square meters of rentable area is planned.

Tenants will also be able to change the design of the space they rent.

Rent is dependent on the floor number.

“The higher, the pricier. Especially it relates to us as we have a view of the Dnipro, Podil and even St. Andrew’s Church,” says Shchaslyva, naming famous Kyiv sights.

Astarta’s rental prices range from \$16 to \$20 per square

**“The higher, the pricier. Especially it relates to us as we have a view of the Dnipro, Podil and even St. Andrew’s Church.”**

— Yulia Shchaslyva,  
rent director, Astarta Business Center

meter, without value-added tax. The retail zone on the first floor will cost more. The companies there will additionally pay running costs of \$4-\$5 per square meter without VAT.

But Shchaslyva says the price may change.

“There are always risks regardless of what structure you’re building,” she said. “We will certainly fill out the space. The question is about the price,” and about how fast the investor expects to profit.

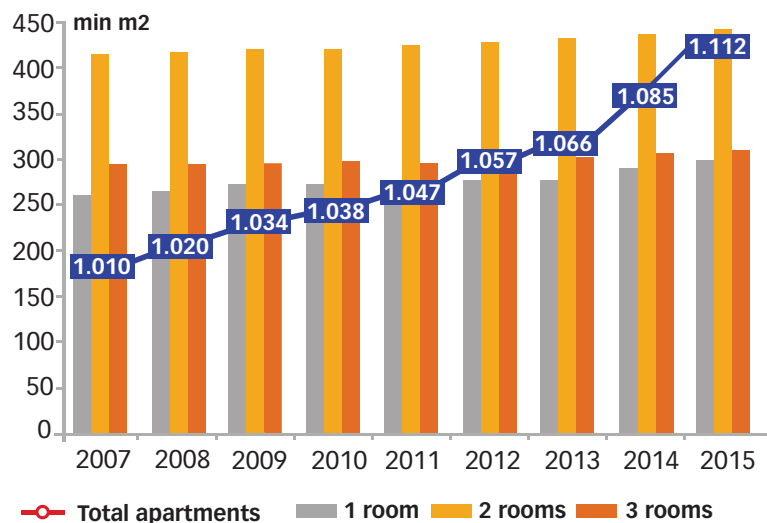
Shchaslyva would not talk about the cost.

“I’d rather not talk about the investments and payback, because our investors are still pouring money into the development. The numbers will distort the situation.”

“We aren’t sticking to the budget,” she continued. “We’re trying to create a product that will be comfortable for people who will work here. If we name the number today, the specialists will say that we are building cheap.” ■

Despite recession in recent years, the total number of apartments in Kyiv has increased to 1.1 million units as of 2015, the largest share of which are two-room dwellings.

## Number of apartments



By Anastasia Shevchuk, Kyiv Post.  
Sources: UTG,  
Statistics Department of Kyiv city council



# Nick Cotton: Property development in Kyiv needs more transparency

By **Bermet Talant**  
and **Brian Bonner**  
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and  
bonner@kyivpost.com

**T**he hryvnia's loss of two-thirds of its value since 2014 also depressed the commercial property market. If there's good news, it may be that the market has hit rock bottom and has nowhere to go but up as the economy stabilizes and returns to expected growth.

Today, however, Kyiv has lots of unfinished buildings and vacant construction sites with no potential for being developed in the foreseeable future. Although Kyiv has seen a significant increase in commercial space delivered in 2016–2017, the projects were started before 2013.

Nick Cotton, managing director of Kyiv office of Cushman & Wakefield, talked to the Kyiv Post about how transparency and introduction of a vacant property tax might spur development in Kyiv. The real estate consultancy is formerly known as DTZ. The two global companies merged in 2015.

**Kyiv Post: When are we going to get to a functioning property market in Kyiv?**

Nick Cotton: The property market does function, but it's obviously very depressed. One of the reasons is the absence of bank finance. So to build purely out of equity is a brave move. The risk to invest into development is even higher in an uncertain market like the Ukrainian one, where all costs are fixed in dollars or euros, but revenues are most likely to be in hryvnia. It's not so unusual for Central and Eastern Europe to have a higher degree of opacity than in U.K. or the U.S. In Ukraine, there isn't any statutory database of transactions of ownership or an objective assessment of the quality of buildings. On one hand, this opacity makes our role as experienced real estate consultants more important because we know the market and its players. However, we would prefer to see more transparency.

**Nick Cotton,**  
managing director  
of the Kyiv office  
of Cushman &  
Wakefield, speaks  
to the Kyiv Post  
on May 15. (Pavlo  
Podufalov)



**KP: How would Ukraine benefit from more transparency?**

NC: The main shortcoming of opacity is that it reduces the confidence of potential developers and investors into real estate on top of country's risks and relatively low GDP (gross domestic product).

Enhanced investors' confidence...could potentially have a trickle-down effect. More transactions, more liquidity on the market, development starts moving ahead.

I don't think there has been any governmental drive to resolve this issue. I think there are bigger challenges Ukraine's administration is currently facing than transparency on the real estate market. At the end of the day, they probably view operations on real estate, of ownership or transactions, as private matters between the parties involved, and therefore why should there be transparency?

**KP: There are so many vacant buildings all around the center of Kyiv.**

NC: First, we must make a distinction between buildings and land. There are a number of undeveloped land plots in and around Kyiv which were disposed of to developers between 2004–2008 on short-term leases for 10–15 years. What we saw was that many of those developers speculated on land, trying to secure development rights without actual developing. They were holding them in anticipation of value growth so that they could sell their lease rights.

As for unfinished buildings, the reasons vary too. Very often parts of those buildings are in third party control or ownership, and it frustrates the development of a larger plot. Typically, developers own the buildings but the land plot would be allocated for the use of the building, not owned or leased. It basically means that the holding cost is very low, whilst the cost of the land lease has gone up over the course of last three–four years.

**KP: Would you favor property tax system based on assessed market value?**

NC: I think it would stimulate the transfer of a lot of those properties. But who is going to assess market value? Ukraine doesn't have infrastructure that would allow to do it on such a massive scale. There would have to be statutory basis for such tax, and it would take many years to implement. Also I would have concerns that there would be opportunities for manipulation, particularly for larger buildings. Evaluation is extremely subjective, and especially on a such an immature market like Ukraine that lacks transparency and liquidity. Another problem is what to develop them into.

**KP: Is residential property market more robust than commercial?**



NC: Yes, it is far more outstripping all forms of commercial development. All of the land plots that we've been involved in the sale over the course of last 18 months have been for potential residential development. The developers are buying land plots presently zoned for commercial construction with the purpose of converting them into residential.

The cost of residential development is significantly lower than of commercial one. In addition, the sales may start on the development phase. Ultimately, apartments have a higher degree of liquidity than, let's say, shopping centers. With the latter you have to build it, lease it, hold it for three years for maturity, and only then try to sell as a whole for a price of dozens of millions dollars.

There's also a real appetite for new residential build in Kyiv. Many citizens would prefer to live slightly farther but in a new building rather than in an older one but in the city center.

We see that most of the residential property developers focus on smaller-sized flats in the city center. Gone are the days of huge 100–200 square meter apartments, today the average size is 60–85 square meters. This also keeps the liquidity together since many purchases are often in a form of investment when one doesn't trust banks.

**KP: What is the current situation on commercial real estate market?**

NC: Whilst the office market is improving in terms of rising space occupancy, the vacancy is still very high, 15–20% according to our data. Therefore, rent rates are still low, so today it's not financially viable to build and deliver new office property.

At the moment office space in Kyiv amounts to 1.8 million square meters, mostly legacy development from 2012–2013. Recently it has become harder to find smaller offices in the center. There aren't any large projects ongoing, and it allows to suggest that we will continue to see vacancy going down.

**KP: Retail space development seems to be more robust than office.**

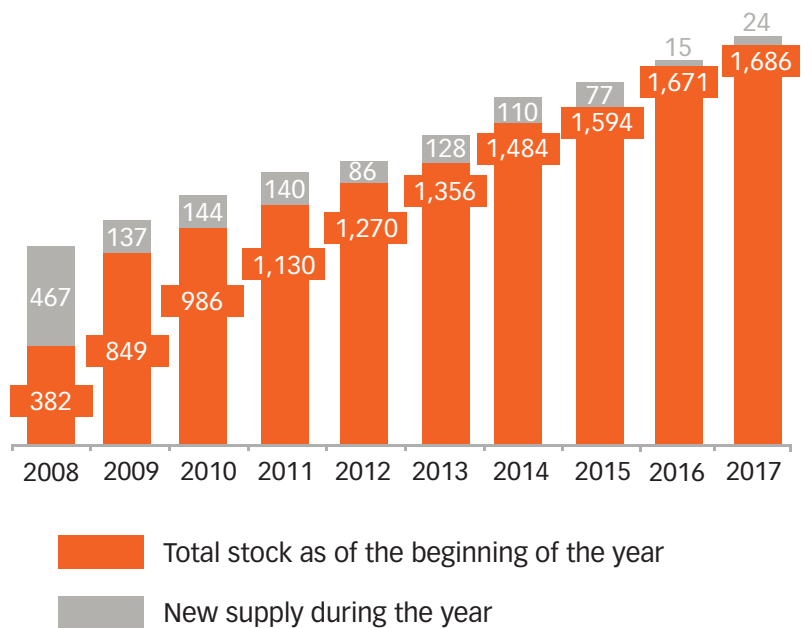
NC: Retail is certainly seen as a riskier investment. Unlike office market, whose rents are fixed in dollars, retail has become more hryvnia-based. Under massive currency devaluation and drop in population incomes, many shopping centers had to adopt rents in hryvnia, and retailers restricted their capital expenditures. It became more expensive to open new stores.

**KP: In the West, shopping centers and malls are struggling by virtue of e-commerce. Ukraine seems to have opposite trend. Three malls opened in Kyiv last year, a dozen others are in pipeline.**

NC: I don't think there will be any collapse on the retail property market to the point when we see malls turning into ghost towns. Yes, we see a lot of projects, but it's a long-term pipeline, and a lot of them are frozen so highly unlikely to suddenly oversaturate the market.

What I see is that increasing e-commerce is starting to

## Total Industrial Stock, Kyiv and Kyiv Region, ths.m<sup>2</sup>



By Anastasia Shevchuk, Kyiv Post. Source: Colliers International

have an impact on Ukraine too. It will primarily impact the positioning of malls. The global trend is malls becoming places for socializing. More progressive centers always look to ways to extend visitors stay time by offering more amenities.

I think, with careful and considered positioning that suits their audience, Kyiv malls can be very sustainable, be it a convenience mall in a high-density residential area like Pyramida, acquired by Dragon Capital, or a destination mall like Ocean Plaza.

**Kyiv city and oblast's stock of real estate for industrial use continued to rise after war broke out in the east in 2014, but the new build contracted sharply. Nevertheless, more is expected to come online in 2017 than in 2016.**

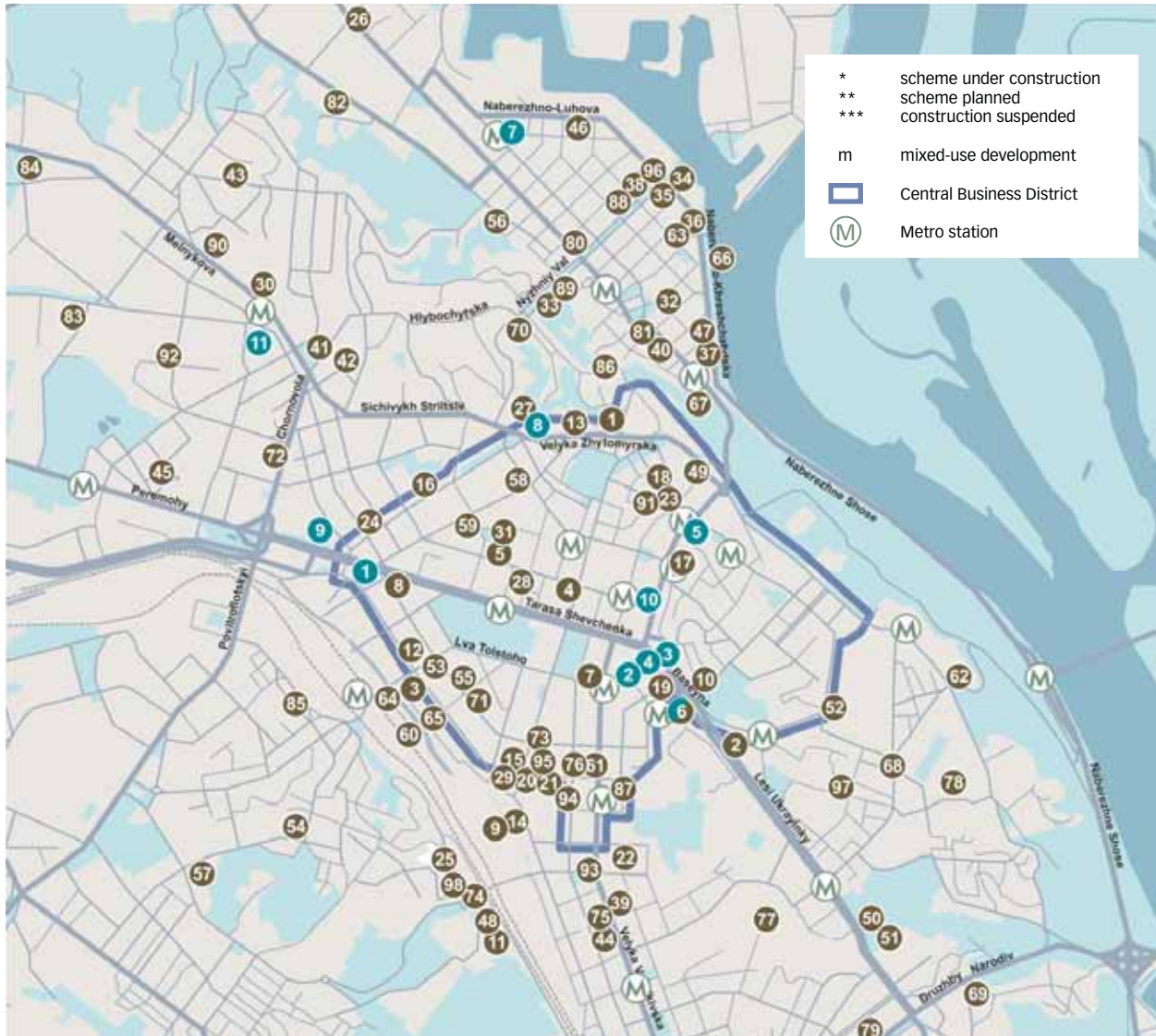
**To reduce speculation and spur development, Nick Cotton said he favors a vacancy tax so property owners cannot just leave buildings empty, blighting neighborhoods.**

**KP: What will happen to hotel and logistics property market in the nearest future?**

NC: I think there's going to be more attention to affordable business travel. We forecast growth in three-star hotel and boutique hotel segment. Next month Radisson opens Park Inn. There are plans to open a new Ibis in Podil.

As for logistics, I think it has bottomed out. Rents used to be \$10–\$12 per square meter in 2008. Today \$4 is considered good. ■

## Major office and retail schemes in central Kyiv



**Major office schemes**

1. Millenium
2. Parus
3. Eurasia
4. Leonardo (phases 1, 2)
5. 52 Bohdana Khmelnytskoho Str.
6. Gulliver (m)
7. Kyiv-Donbass
8. Europa Plaza
9. Farenheit
10. Horizon Office Towers
11. Horizon Park (phase 1, 2)
12. Karat
13. Panorama
14. 28 Fizkultury Str.
15. Prime
16. Renaissance
17. Khreshchatyk Plaza
18. Baroque
19. Dominant
20. Fabula Placet
21. Capital Hall
22. Renome
23. 7 Mykhailivska Str.
24. Ukrainian Pharmaceutical Centre
25. FIM Centre (phase 2\*\*)
26. Rialto
27. Kyianivskiy

28. 33/34 Ivana Franka Str.
29. New Technology (NTBC)
30. Topaz\*\*\*
31. 52B Bohdana Khmelnytskoho Str.
32. Ilyinskyi
33. Trio Office Complex
34. 72 Verkhni Val Str.
35. 66 Verkhni Val Str.
36. Podil Plaza
37. 13/5 Ihorivska Str.
38. Canyon
39. Capital
40. 33 Sahaidachnoho Str.
41. Artem
42. Forum
43. 23 Bahovutivska Str.
44. Toronto-Kyiv (m)
45. Vector
46. 19b Turivska Str.
47. Horizon Podil (phase 2\*\*\*)
48. Protasov Business Park (phase 3\*)
49. 13A Kostyolna Str.
50. Tsarskyi
51. Alliance Plaza\*\*\*
52. 7A Klovsyky Uzviz Str.
53. Kremona
54. Vremena Goda
55. 70 Saksahanskoho Str./16B Pankivska Str.
56. Shchekavytyskyi

57. Eleven
58. Alliance Service
59. 55B Olesya Honchara Str. \*\*\*
60. 50 Haydara Str.
61. Vasylevs
62. 1A Dniprovskiy Uzviz
63. 26/14 Spaska Str. \*\*\*
64. 101 Tower
65. Diplomat Hall
66. Dnipro Plaza
67. Volodymyrskyi
68. Senator
69. IQ
70. 28 Smirnova-Lastochkina Str. \*
71. Patriarch Hall\*
72. 12 Chornovola Blvd.
73. 40/85 Saksahanskoho Str.
74. 2 Novovokzalna Str.
75. 98 Chervonoarmiyska Str. \*
76. Maxim
77. 36 Shchorsa Str.
78. 15 Leiptsihska Str.
79. 19 Druzhby Narodiv Blvd.
80. Podil Prestige\*\*\*
81. 37 Sahaidachnoho Str.
82. 69 Frunze Str. \*
83. 5/1A Zoolohichna Str. \*
84. 8 Dorohozhytska Str.
85. Forum B7

85. Forum B7
86. Vozdvyzhenskyi
87. Troitskyi
88. Domino
89. Advance
90. Smart Office House
91. 3 Shevchenka Lane
92. Residence
93. Kuznetskiy
94. Dynasty
95. 32-36 Zhylianska Str.
96. Astarta\*
97. 22 Panasa Myrnoho Str.
98. 3 Novovokzalna Str.

**Major retail schemes**

1. Ukrayina
2. Metrograd
3. Arena City
4. Mandarin Plaza
5. Globus
6. Gulliver (m)
7. Podol Mall\*\*\*
8. Victorio
9. Hartz\*\* (m)
10. TsUM
11. Lukyanivka Mall\*

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