

## Review of commercial real estate in 2008 in Kharkov

For owners of the real estate and builders it is possible to name the last year the time of "the big statements» and optimism, and, at the same time, year of ruin of a habitual situation and the first serious check on durability. In 2008 the considerable quantity of high-quality commercial areas – about 160 thousand in sq.m. has been announced to be put in operations.

But in first three quarters terms of input of the majority of objects were transferred for the reason of their habitual optimistic expectations. The fundamental change which has followed it in economy has induced to transfer input of variety of objects for 2009 (Shopping and entertainment center "Magelan", Shopping and entertainment center "Joker", Shopping center "Knijnuy mir") Despite it the volume of commercial areas of the objects entered in 2008, has made 107,6 thousand sq.m. The most significant of them are shopping and entertainment center "Dafi" and DIY hypermarket «Novaya liniya» (tab. 1).

Table 1

Objects of commercial real estate put in operation in 2008<sup>1</sup>

Name	City district/Address	Total area, sq.m
Shopping and entertainment center «Dafi»	Peski/Geroev Truda str., 7	80 000
Hypermarket «Novaya Liniya»	Jihar/Gagarina pr., 318 V	20 000
Shopping center on Klochkovskaya str. (Kontinent)	Pavlovka/Klochkovskaya str., 101	9 760
Shopping center «Mega-Antoshka»	Nauchnaya und. st. /Lenina pr.,9	8600
Shopping center «Rost-3»	Kievskaya und.st./Shevchenko str., 132A	8000
Shopping center «Ekstrim»	Gosprom/ Klochkovskaya str., 132	7 430
Supermarket «Fox Mart»	Artema pos./ Moskovskiy pr., 199	5200

Retail area of the market of the Kharkov commercial real estate of all formats by the end of the year makes more than 1,14 million sq. m where share of modern formats (shopping centres, super- and hypermarkets) is 40 % (about 464 thousand sq.m.).

Two new chains of DIY retail entered in Kharkov market – «Novaya Liniya» and German company OBI (in shopping and entertainment center "Dafi"), one of the main European DIY chain and the indisputable leader of Germany DIY market.

<sup>1</sup> - Objects with commercial area exceeds 3000 sq.m.

The structure of the vacancy in the offer of market turnover of a city, especially in the fourth quarter has essentially changed. Has appeared more offers in the city centre and in the districts close to the city centre, especially on a rent segment. In the fourth quarter appeared variety of retail premises with area more than 500 sq.m., basically in the areas closed to the city centre. Distinctive feature of the end of the year became sale of modern large-sized commercial objects and presence of great volume of the vacant areas for rent in shopping and entertainment centers and shopping centers.

Concerning demand in first three quarters of the year the situation was usual. The most demanded were retail premises of shopping centres and on the ground floors of main streets. Decrease in consumer ability in November-December (volumes of traditional before New Year's sales in comparison with previous years have considerably fallen), has most of all affected these formats of trade, reducing demand on them. On the other hand, qualitatively worked out projects of Shopping and Entertainment Centers and Shopping Centers in residential areas with a good traffic interchange, do not have problems with tenants.

In any case, in the market is observed the increase in vacancy of retail areas that is connected not that much with reduction of calculated deficit, how many with reduction in time (till 1 year) of consumption volumes and population incomes. It is necessary to note also reduction of interest of foreign investors and trading operators to the market of the commercial real estate of Kharkov, especially in sphere of new projects development.

Major factors on which level of rent rates/costs in the market of the commercial real estate depends, the type of commercial object, its location, a technical condition of the premises and its area. Below you could see the cost indexes to a structural sign of the class of commercial objects (fig. 1,2).

In the analysis of cost indexes was used the average prices, on the basis of the objects which are in a market turnover of Kharkov in 4 quarter 2008.



Fig. 1. Rent rates of commercial areas by formats. US dollars/sq.m.



Fig. 2. Cost of commercial areas by formats. US dollars/sq.m.

Considerable inflationary processes in the country, expansion of chain operators, deficit of qualitative retail areas and a high speculative component, led to growth of rent rates and cost on commercial objects in Kharkov up to September, 2008. Economic crisis has changed the growth tendency.

By the end of 2008 the average rent rate on trading premises in the city of Kharkov is fixed at level 37,9 US dollars for sq.m. Increase in average rent rates from the beginning of 2007 has made about 9 % (fig. 3).

Average cost of retail areas is fixed at the level of 2977 US dollars for sq.m. Increase of average cost from the beginning of 2007 has made about 40 %. Cost of office real estate increased and now decrease much faster then rent rates (fig. 4).

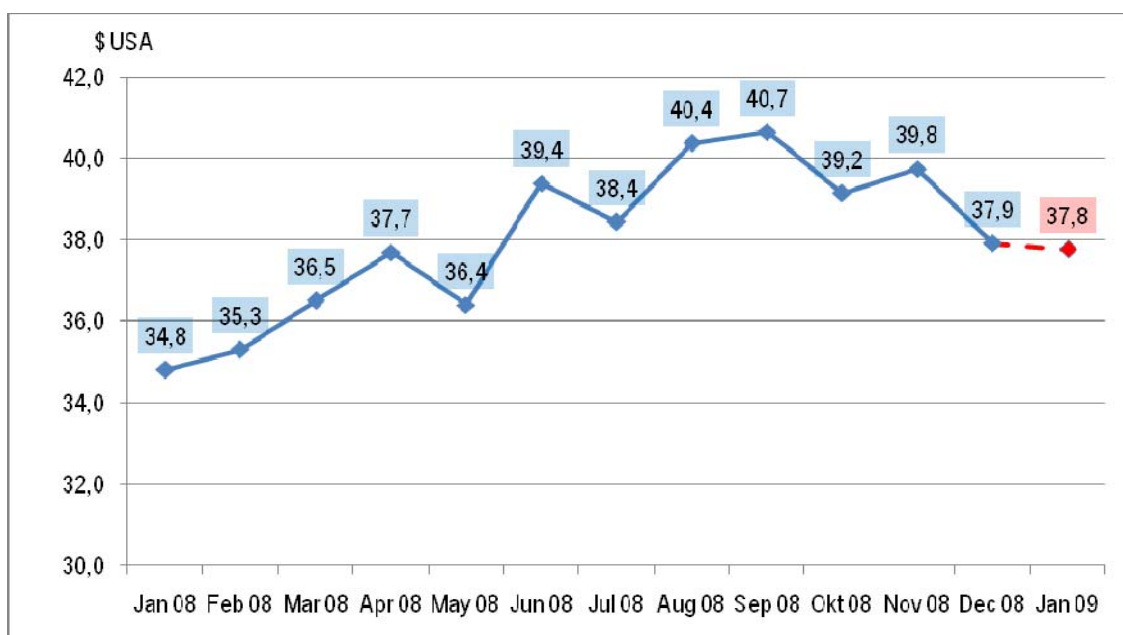


Fig.3. Dynamics and forecast of rent rates of 1 sq.m. of commercial real estate.

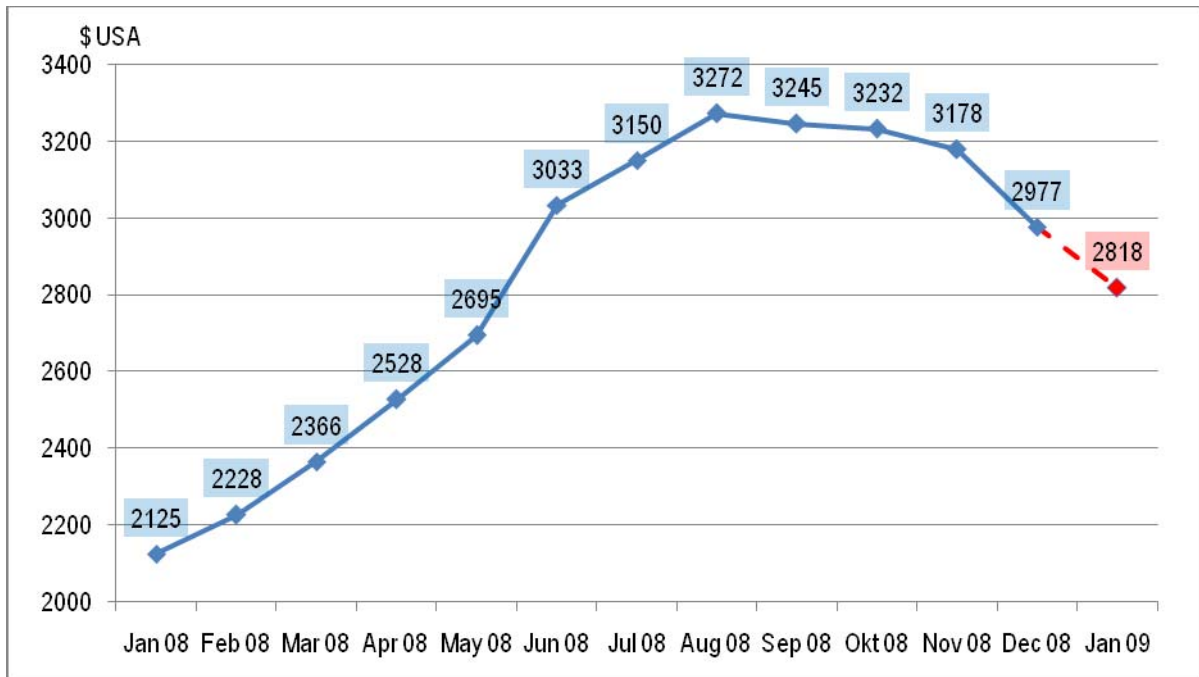


Fig.4. Dynamics and forecast of cost rates of 1 sq.m. of commercial real estate.

Because of higher growth rate and falling of cost for retail areas in comparison with rent rates, rates of capitalisation and profitableness of commercial objects are grow. But considering the general decrease in investment activity and demand for office premises, in view of falling of economic indicators of manufacture and services turnover, the market of commercial real estate by the end of 2008 has considerably lost in the investment attractiveness.