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Retail Forum Ukraine 2012, an annual event dedicated to the real estate market in Ukraine was held at «President Hotel» on May 29.

The forum has been organized by Ukrainian Real Estate Club, the branch organization, for a third year in a row and dealt with the most topical issues of the segment. Experts

discussed issues connected with the creation of a successful shopping center this year, and they also took into consideration the problem of attracting an optimal mix of leasers into shopping (and leisure) centers. Besides that experts estimated the state of affairs in the segment, in general.

(Continuation on page 2).



However, the Retail Forum Ukraine 2012 was not the only event, dedicated to the real estate market, which was held by the branch organization this year. URE Club organized a special business tour around Portuguese retail objects in spring, where the participants of the business tour could get to know about new formats of shopping (and leisure) centers that were successfully realized in the European countries, among which there were multicomplexes, retail parks, outlet centers and shopping center of new generation.

(Continuation on page 5).



THE REVIEW OF THE RETAIL FORUM UKRAINE 2012: cautious forecasts and an optimal prospection

P. 2-4



A BUSINESS TOUR AROUND THE BIGGEST RETAIL OBJECTS IN PORTUGAL: new formats, ideas and acquaintances

P. 5-6



NATALIA KOCHERGINA: «The market is recovering from the downturn, but participants still need steady nerves and good lawyers».

P. 8



ARTEM ZHEBROVSKIY: «Success is possible for those who sell investment projects together with a package of consulting services»

P. 9-10



The Review of the Retail Forum Ukraine 2012:

cautious forecasts and an optimal prospection

Beginning on the page 1



Moderators and speakers of the Retail Forum Ukraine 2012

Speakers of the Retail Forum Ukraine 2012 this time were such experts of retail property, as Thomas Binder, CEO at Sonae Sierra international development company; Vitaliy Boyko, partner at UTG and Mathieu de Bruin, CEO at Arricano Real Estate.

The moderators of the Retail Forum Ukraine 2012 became Nataliya Kochergina, partner and real estate manager at DLA Piper Ukraine and Nick Cotton, Managing Director at DTZ Ukraine.

According to **Nataliya Kochergina**, the forum's moderator, «being legal advisers we notice that retail remains the most attractive one among the bargains that are held on the commercial real estate market. However, retailers' attitude towards Ukraine remains alert due to the country's negative political image and its unstable economic state in the world economy».

Despite the fact that crisis patterns in Ukraine and other countries still remain strong, the level of professional commercial objects' realization has immensely increased in recent years, according to experts. Vitaliy Boyko admitted: «the limit of quality, by which a shopping center can become successful in Ukraine, now matches the level of the best international projects in terms of quality and amount of investments. However, it becomes more difficult to attract investments even into retail objects. Perhaps, that can be the reason why not all declared retail property objects will be realized in time. Only development companies, capable of finding own costs for funding new projects, will successfully act on the market».

Sergey Fedorik, the other expert of the Ukrainian real estate market, who is the managing partner at «Ukrbudcontract» company has pointed out that «despite weak competition among development groups, the demands for the concepts of new retail objects in Ukraine are constantly growing. Besides common components (such as posh architecture, competent engineering decisions, facades and location) the new ones also emerge. For instance, technologies and approaches of «green building» gain more and more interest among the population. BREEAM or LEED certifications (the most widespread standards of «green building») are not goals in themselves. The aim is to match the project with high demands of the building's interaction with its users and environment.

It depends on the quality of the implemented optimization whether it will be better for the workers of leasing or owning companies to work in the building, which corresponds to such «green demands» and also whether the building will match the natural environment smoothly. A growing attention to this aspect shows that after searching for additional marketing tools developers understood importance of not only social but ecological responsibility too».

More than just mere shopping

According to experts, the quality of shopping center has increased together with the demands for them. Now it is necessary for retail objects to not only hold marketing offers to attract a bigger number of customers, but also to create an optimal mix of leasers and pay attention to the architecture and the entertainment component of the shopping center. **Thomas Binder, CEO at Sonae Sierra** and the forum's speaker admitted that modern shopping center have to provide a more active integration with e-commerce for successful competition with online-shops.



The moderator of the Retail Forum Ukraine 2012 Nataliya Kochergina, partner and real estate manager at DLA Piper Ukraine and the speaker of the event – Thomas Binder, CEO at Sonae Sierra

Mathieu de Bruin, CEO at Arricano Real Estate said: «It is necessary to take into account leasers' interests together with various marketing events, which lose their relevance among customers quickly. Thus, premises of high quality and comfortable work conditions should be provided for leasers. A thoughtfully selected mix of retailers in a shopping center can attract a lot of new clients».

Experts say that modern shopping center have to compete not only among themselves, but also with online-shops. According to Thomas Binder, CEO at Sonae Sierra, «shopping center should exploit new technologies and get involved in e-commerce as internet-sellers do for a successful fight for customers. It is necessary for the modern shopping center to unite an e-commerce factor with fixed retailers in order to survive as a format».

It is also very important to take an entertainment component in modern shopping center into account. «Due to researches, the Ukrainians can spend a rather sufficient amount of money on entertainment. Thus, the territory of such specialized areas has been increased in our new projects. But one shouldn't forget that mere entertainment is not enough for the creation of a successful center; functional architecture and a correct selection of leasers should be taken into account here» — admitted Vitaliy Boyko, the forum's speaker and partner at UTG.

Sergey Fedorik also added: «A thoughtfully developed concept of the commercial object gives an opportunity to not only build it professionally and bind it with the location's infrastructure, but also increase the efficiency of the shopping center's management, reduce operating costs, which can become a decisive factor when selecting a center by leasers».

«The idea of modern shopping center is to deliver more than mere shopping to a client. A peculiar atmosphere should be created for customers so that they would spend as much time there as possible and feel them like at home. Visiting a shopping center should turn from a simple act of buying into a social act» — concluded Thomas Binder, the expert in the sphere of commercial objects' development.

Retail in regions

Experts also dwelt on the issue of development and investing into regional shopping center during the Retail Forum Ukraine 2012. As it has been mentioned in 2012 first after crisis, the interest of developers, who develop retail property projects, has stopped being limited only by the capital city areas.

According to Nick Cotton, the forum's moderator and **Managing Director at DTZ Ukraine**, there is a great potential for developing new shopping centers in Ukrainian cities with the population of over 600 thousand people. «Retail projects have started to develop outside Kiev for the first time after crisis in such cities, as Donetsk, Dnepropetrovsk and Odessa. Distinctive improvements have been noticed in this trend by 2012, and developers should now pay attention to the regions. The interests of regional areas, the key audience and the amount of population should be also taken into account» — said the expert.

Nataliya Kochergina, partner and real estate manager at DLA Piper Ukraine also supports him: «it was only half a year ago when investors focused merely on Kiev, but there has recently been noticed an interest to million cities».

Due to the UTG data, the area of acting trade premises, available for leasing, comprised 428,8 thousand sq. m. (297 sq. m. per 1000 persons) in 2011 in Kharkov, 277 thousand sq. m. (285 sq. m. per 1000 persons) in Donetsk, 377,7 thousand sq. m. (377 sq. m. per 1000 persons) in Dnepropetrovsk, 264,4 thousand sq. m. (263 sq. m. per 1000 persons) in Odessa. Vacancy of trade premises in regional centers varied from 0-1% in Kharkov to 1-7% in Dnepropetrovsk (0-1,6% in Kiev).



Participants of the Retail Forum Ukraine 2012



Nick Cotton, Managing Director at DTZ Ukraine

As it was mentioned in the DTZ Ukraine reports, the total size of trade premises in the capital city has amounted to 359 sq. m. per 1000 persons by the end of March 2012. According to analysts' forecasts that were presented during the forum, this pattern could have increased to 500 sq. m. per 1000 persons by 2015, which in Nick Cotton's view, will comprise only half a supply in such European capital cities, as Prague and Warsaw.

«Not only realization of new commercial objects, but also an overhaul of existing shopping centers that need modernization and are relatively easy to implement, have a big potential. Their efficiency and competitiveness can be increased by changing a façade, leasers, a control mode, marketing policy and branding. DTZ already provides such services and consulting in the sphere to a range of developers and banks today», — underlined Nick Cotton, Managing Director at DTZ Ukraine.

A search of funding new projects of shopping (and leisure) centers in Ukraine remains a topical issue. **Mathieu de Bruin, CEO at Arricano Real Estate** says: «the local market is still very weak, development and new construction opportunities are limited, and a few banks are ready to fund these branches. It is obvious that such a situation is a general matter of concern for many European countries now due to a long Euro crisis and adopted new bank rules (such as «Basel-3» — new norms of demands for asset structure, which will have been implemented since January 2013)».

When answering a question about possible perspectives of boosting the market state, the expert stated: «The current unstable economic and political situation in Ukraine (a possible hryvnia's devaluation, upcoming elections) and local laws that limit crediting with foreign currency, make it possible to suppose that such a state of affairs will last for at least the nearest half a year».

Entertainment industry

Particular attention should be paid to the issue of an entertainment component in modern shopping center. On the one hand, application of such a concept justifies itself, becoming not only an additional factor of attracting visitors, but also a direct source of income. According to the other experts, such as Mathieu de Bruin, the role of the entertainment component in the total success of shopping center is a bit overestimated. «All in all, we try to convince people to consider shopping as an entertainment and, thus, when making projects of a center we use various elements that prolong visitors' stay inside our objects. We also sug-





The moderators of the Retail Forum Ukraine 2012 Nataliya Kochergina, DLA Piper Ukraine and Nick Cotton, DTZ Ukraine; the speakers of the event: Thomas Binder, CEO at Sonae Sierra, Vitaliy Boyko, UTG and Mathieu de Bruin, Arricano Real Estate.

gest them feeling at home or visiting shopping center as a particular place of interest. However, the synergy of the entertainment industry and retail is usually overestimated, in my viewpoint» - admitted the expert.

One of the new projects, where the entertainment component will be a distinctive element, is Respublika shopping and leisure center. UTG is its exclusive broker. This is the first Ukrainian super regional shopping and entertainment complex, which corresponds to the ICSC classification fully. Vitaliy Boyko, partner at UTG says: «the only first and, we expect, the main entertainment theme park will be situated in Respublika. There is no such a park nowadays even in the neighbor countries, such as Russia, Turkey or Poland».

Respublika is the country's biggest shopping and entertainment complex: it has 290 thousand sq.m. of total area, around 140 thousand sq.m. of premises for lease. An entertainment park will be of over 30 thousand sq.m.

The UTG experts inform that the key point of the family entertainment park in the shopping and entertainment complex will be a unique entertainment center for children. Rollercoasters, falling towers, a ferris wheel and many others could be found there.

The concept of the family entertainment park in Respublika shopping and entertainment complex has been created by KCC, the world leader in projecting the best modern family entertainment parks in shopping and entertainment centers. It has developed the concept of Happylon, in particular, which is the best entertainment center in the world. The company now implements the concept of the entertainment center for children in Dubai Mall, the world biggest shopping and entertainment center. Respublika will also have a cinema, a bowling-center, a wind tunnel, a fitness-center, a big skating rink, a rollerdrome and many other means of entertainment.

«Uniting huge shopping and entertainment centers is a new format in Ukraine, but it was used in the whole world for a long time. The Mall of America is one of the most vivid examples. Respublika will much resemble its American prototype» — comments Vitaliy Boyko.

One of the most important moments that are connected with the new shopping and entertainment center has become the amount of investments. The sum is record-breaking and unprecedented for the Ukrainian real estate market, and comprises 350 mln. dollars. «We plan to create a leader in commodity turnover, because we are assured that the unique format of Respublika shopping and entertainment center will attract a huge number of regional visitors and foreign tourists, apart from the major part of Kiev citizens» – admits the partner of UTG.

Branch perspectives

To sum up, beliefs of two speakers of the Retail Forum Ukraine 2012 should be mentioned, which deal with perspectives of branch development in the nearest

future. According to Mathieu de Bruin, CEO at Arricano Real Estate, «Ukraine has a big potential for development, as retail patterns increase (except some cyclic corrections). At the same time there is a switch from markets to modern commercial objects, though the market situation remains tangled in general. The branch still needs international retailers and innovation products. Due to the key conditions on the local market we witnessed that only a couple of new brands entered it in the last two years. I believe that more attention should be paid to simplifying the tax and legal basis in the retail sphere. The other problem is also an insufficient number of modern trade premises».

Vitaliy Boyko, partner at UTG also considers the branch potential to be rather high and the state of affairs to be not so bad: «Unfortunately, criticism only boosts existing stereotypes about the low level of consumption among Ukrainians, corruption on all governmental levels and also strengthens retailers' position about inability to protect one's rights in the Ukrainian court. It all influences intentions of new chains to enter the Ukrainian market negatively.

To my mind, the situation is not as critical as it is considered to be today. International retailers trust Ukrainian partners and us as the national consultant even more now. They see that the Ukrainian market offers qualitative projects of shopping center from experienced and reliable investors and developers. A lot of chains that were not earlier been developed in Ukraine have already entered such projects.

I think that existing stereotypes should be dispersed now. We need qualitative promotion of Ukraine on the international market for that».



Guest of the event Oleg Salmin, XXI Century



URE Club business tour delegation

A business tour around the biggest retail objects in Portugal:

new formats, ideas and acquaintances

Ukrainian Real Estate Club organized the business tour for the Ukrainian real estate market players last spring. The aim of the business trip was an acquaintance with Portuguese commercial objects and a search of new opportunities for cooperation among local developers and Portuguese investors and retailers. Besides, Ukrainian businessmen got to know about new retail formats that haven't been realized in Ukraine yet.

The business tour around the Portuguese retail property was held from April 22 till April 26 with support of GFive Development.

New formats and acquaintances

The programme was saturated, as in the previous tours organized by URE Club. Ukrainian developers got an opportunity to get acquainted with such perspective formats of retail property, as retail parks (among which - Sintra Retail Park, Barreiro Retail Planet, Guia Retail Park), a trade complex (Multi Complex Alfragide), an outlet centre (Freeport Outlet) and shopping center of the new generation (such as Colombo Shopping Mall, Dolce Vita Tejo, Vasco Da Gama Shopping Centre, Algarve Shopping Centre и Cascai Shopping).

According to experts, the main peculiarities of a modern shopping center as compared to existing projects become a conceptual approach, application of the newest technologies and outstepping the usual format of retail objects. «The idea of modern shopping center is to deliver something more than mere shopping to a client. A peculiar atmosphere should be created for the customer so that he would spend a lot more time in shopping center and feel like at there», considers Thomas Binder, CEO at Sonae Sierra.

The main event of the business tour became a business meeting with representatives of the largest Portuguese retail networks. Among the companies that showed interest to the Ukrainian market there were Espaco Casa, which sells various home products; Seaside, an international brand of trendy footwear; Colunex, producers and sellers of different bedroom accessories; Parfois and others.



A new generation shopping center in Portugal



The most ambitious and successfully implemented retail facilities included in the program of the business tour to Portuguese retail real estate market

The conceptual approach

According to Vladimir Bandura, managing director of the Ukrainian office of GFive Development (an organizing partner of URE Club), «the participants of the business trip could not only personally get acquainted with the best implemented ideas of new trade formats, but also meet representatives of managing companies, developers and investors, who are involved into the Portuguese retail segment».

Thus, during their visit to Vasco Da Gama Shopping Centre, the shopping center of new generation, the participants of the business tour met Thomas Binder, CEO at Sonae Sierra (acting as a developer of the managing company of the shopping center).

In the framework of a small presentation of the company and its implemented objects, the company's representative admitted that the components of Sonae Sierra's success include an integrated approach towards project realization, a creative idea, detailed marketing researches and a thorough selection of leasers for every peculiar object.

According to Thomas Binder, «a lot of factors are taken into consideration when developing a concept of the company's analysis, such as purchasing power of the target audience, the amount of money the visitors are ready to spend in our shopping center and even transportation they will use to get to it. All these factors are taken into account when creating a successful mix of leasers which would meet the needs of all our potential clients».

Besides marketing researches, Sonae Sierra uses an integrated approach in commercial objects development, which according to experts reduces the risks to a big extent when realizing a project. Thus, the company not only provides the concept's development and planning, but also leasers' selection and managing the finished objects.

«We try to develop a creative idea for every new trade object so that every object is unique» – admitted Thomas Binder.

Business meetings

The participants of the business tour officially met with representatives of the international **Imorendimento Investment fund**, the **investment structure of Banif Investment Bank**, **GFive Development** and chief executives of development companies, which managed to realize one of the most successful retail objects in Portugal and Europe, – **Chamartin Imobiliaria** and **Eiffage Immobilier**.

Chamartin has started its activities since 1950, having dedicated itself to building and construction work. More than 500 of various projects were implemented in 20 years around Spain: starting with motorways, railways, bridges and finishing with communal buildings and residential buildings. Among the major company's projects there are the Dolce Vita Tejo Shopping center. The main amenity of the complex is an entertainment center, which is popular both in Portugal and abroad. Families come here from the whole country and even from some European countries to have rest (and to shop in trade galleries at the same time). All in all, the concept of an entertainment venue as an anchor tenant, becomes more popular in modern shopping center among international developers and is adopted by the local market players.

Eiffage Immobilier is an international group, which realized around 200 thousand sq.m of shopping places in Porto, Portugal and also a huge trade object the Barreiro Park in the suburbs of Lisbon, etc. The participants of the business tour, organized by URE Club had an opportunity to get acquainted with peculiarities of Barreiro Retail Planet personally.

This is the first Portuguese retail park, which is united with the shopping center. It hasn't lost its popularity and has proved its efficiency in the long-term perspective.

The Imorendimento international investment fund, which runs its activity in all the real estate segments of Europe, Northern America and China, was among the investment structures, whose representatives came to meet Ukrainian developers. Imorendimento that was first created as an investment funds management company is now a group of companies, which acts in the investment and asset management spheres. The Imorendimento group of companies includes the same-name company, which specializes in investments, the managing company and some international structures.

Ukrainian developers also met with representatives of the actively developing Banif Investment Bank. It was founded in 2000 with the registered capital of 85 mln. Euros. Banif Financial Group is responsible for all investment banking processes in the structure of the financial group on both national and international levels.

Banif Investment Bank defines itself as an enterprise, which takes an active part in three strategic business trends, such as capital markets, investment management and consulting services in the banking sphere.

The Ukrainian companies, which participated in the business tour, organized by URE Club, are Arricano, «ZIG», «Krai Property», «Liko-Holding», GFive Development and «Ukrainian Trade Guild».

The procedure of the corresponding rights to develop most of the objects has become more sophisticated – experts

The Cabinet of Ministers of Ukraine by making changes to the existing order of construction execution works provides with opportunity legally correspond rights to develop until the construction I-III category objects of complexity. Such resume was expressed by the experts of the URE Club Legal Committee which held a regular meeting on August. The initiative to change the order of construction work, according to experts, is aimed at improving the mechanism for transferability of permits for construction.

The subject for discussion of the regulatory section of the URE Club Legal Committee meeting was updated Cabinet of Ministers decision «On certain issues preparation and execution of construction works» dated 13.04.2011, № 466, which was changed by the Cabinet of Ministers of Ukraine on 11.07.2012, № 653. Among the major issues that have attracted the attention of experts were: new version of the declaration forms to start construction work and notification of changes in the data declaration of the beginning of construction works, as well as the introduction of an electronic system of permits for construction.

The meeting participants noted that the renewal declaration form and notification of its change could solve several «painful» moments of licensing procedures. Firstly, from now in the declaration is not necessary to specify the name of the contractor and the persons who are responsible for carrying out construction work (contractor employees); respectively, abolished the requirement to provide GASK with a notice of declaration change in case of change of contractor / his decision-makers, it is sufficient in this case to notice about such changes GASK by a letter. Secondly, the more clearly wrote out the procedure of corresponding rights to build on. Standard notification of changes in the data of declaration completed with necessity of stamping and signing, both by the old and the new developer (before this issue was not settled and spawned a lot of confusion in practice).

However, experts focused on the fact that giving to GASK only single notification about change of building owner is not sufficient for the immediate construction by a new face. In addition to the new GASK permission to the developer, as a general rule, you must obtain rights to the land where the work will be done. It clarifies the Chairman of the URE Club Legal Committee, a partner of the law firm KPD Consulting Vladislav Kysil, «a new developer, even with the successful application submitted for registration in the GASK notification about change of the client is necessary also obtain from the previous developer's rights to a built-up land plot (except are only cases of major repairs and reconstruction of certain types). In addition, by changing the developer you should consider the need to transfer rights to the developed design documentation, or in another way with the continuation of construction may appear additional complications».

Another positive aspect of the law was the introduction in Ukraine of the electronic declaration system of the start of construction. This initiative, in general, fit into the concept of modernizing and simplifying the access of businesses and individuals to various administrative services (including administrative services in the licensing area of GASK). However, according to participants, the effectiveness of e-declaration system must be tested by practice.

To summarize the regulatory section of the meeting, members of the URE Club Legal Committee consider it possible to note that the decision of the Cabinet of Ministers of the improved situation in the correspondence of rights to develop, and deserves positive feedback. Among the shortcomings of the current regulations the Committee's experts of the URE Club Legal Committee were forced to pay attention to the remaining unresolved the procedure for transfer of development sites IV-V category of construction.



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Natalia Kochergina:

«The market is recovering from the downturn, but participants still need steady nerves and good lawyers».

According to experts, the real estate market of Ukraine is gradually emerging from recession, and the situation in some of its sectors is stabilizing, however, statistics show that it is still vulnerable to the adverse consequences of a global economic downturn.

In an interview for the URE Club, Natalia Kochergina, partner and Head of the Real Estate practice in the Kiev office of DLA Piper, a global law firm, gave her views on the current status of the real estate investment market in Ukraine, what obstacles still exist for foreign investors in Ukraine and the country's economic potential.

Natalia, how do you evaluate the current state of affairs on the real estate market of Ukraine, the consequences of the financial crisis and the level of investment attractiveness of the real estate market?

I would say the market is gradually recovering from the downturn, and the number of transactions has increased compared with the situation during the height of the crisis. However, it is significant that the majority of current transactions are with local players rather than international investors. The absence of foreign portfolio investors in the market is connected with the current state of the global financial market without any doubt. The financial crisis in the world and in Europe, the complex political situation in Ukraine and the high risks of our market mean that it is hard to attract new investors at the moment. Investors are waiting until after the parliamentary elections in October to see whether they will bring any political change which will affect the investment environment, in addition they are monitoring the current situation with the hryvna due to fears of devaluation and change of rules of the game.

However, despite high political and economic risks, the Ukrainian market remains attractive due to its low saturation and large size. Some of our clients, mostly retailers are so interested in this market that despite the current risks they not only continue their activities, but expand them, by amending their business-plans for Ukraine. These clients are existing investors in Ukraine and the fact that they have expansion plans despite all uncertainties is encouraging for the market.

How do your clients plan to develop? What can you tell us about the attractions of Kiev and other regions for investors? Is there a significant difference between regions?

For retailers Kiev still remains the most attractive location. There are more investments in large-scale real estate assets taking place in the capital city than elsewhere in Ukraine. In 2010 DLA Piper supported the biggest transaction in the Ukrainian commercial real estate market - between Dragon Ukrainian Properties & Development and Arricano, pursuant to which Dragon purchased shares for participation in five retail-projects in Kiev and other regions of Ukraine, including SkyMall in Kiev, City Mall in Zaporozhye, Intermall in Simferopol, and others. We also provided legal backing for the Ukrainian ISTIL Business Group in its negotiations for the Leipzig Hotel management agreement under the Renais-



Natalia Kochergina, partner and Head of the Real Estate practice in the Kiev office of DLA Piper

sance brand with the Marriott Hotels Corporation. DLA Piper team was also responsible for preparing a locally applicable construction contract based on the standard contract form of the International Federation of Consulting Engineers (FIDIC) for ISTIL.

But today there are a few large-scale real estate assets / objects available in Kiev, and the prices are high. However, in the last few years we have faced new trends, which show that retailers are interested in other Ukrainian cities with a population exceeding one million, such as Odessa, Kharkov, Donetsk and others. This is a positive development, which shows that the market is recovering from the crisis.

Which sector, in your opinion, has the most potential today taking into account investment attractiveness for developers and why? Do you think that only local investors will be active in the market in the nearest future?

As I learned from communication with my clients, commercial real estate sector players are most of all interested in retail and shopping center currently. Industrial real estate and infrastructure are a focus for specialist industrial and agricultural companies; investing in assets such as elevators, terminals, etc. Both the industrial and commercial real estate markets receive investment from domestic and international investors. However, until there is greater stability and predictability in both the Ukrainian economic and political situation we do not expect any significant changes in volumes of investment. It will be some time before portfolio investors return to Ukraine.

A lot of experts believe that Ukraine has a big potential for economic development, but its potential is not effectively exploited. Do you agree with this statement?

Yes, I agree, and all the above-mentioned examples reinforce this point. The real estate market, and the commercial one in particular is not saturated; we have the second largest commercial real estate market in Europe, and the country's potential is huge. However, there are some political and economic obstacles, which prevent us from fully utilizing such a potential.

Tell us, please, in detail about these obstacles – what is the most significant issue, economic problems or the lack of infrastructure development? What legal obstacles are there? Are foreign funds scared away by local legislation in this sphere?

Political and economic issues are the most important factors, without any doubt. The problems with legislation are secondary, they are not key deciding factors for investors making decisions about which country to invest in. Our laws are not bad but their main disadvantage is that they are changed very often. Tax legislation is especially unstable and our legislation is imperfect in many spheres. In the real estate sector we lack public real estate registers and there is limited access to the cities' general plans, etc. In addition, apart from legal and tax risks there are also reputational and commercial risks. The risks themselves cannot be excluded totally, there are no risk-free projects in Ukraine but the majority of companies are ready to absorb these risks. However instability, corruption and bureaucracy scare off funds and other investors.

Will the interests of foreign investors be protected in Ukraine if they choose to enter the market? What could you suggest to foreign companies which aim to enter the local real estate market?

In my opinion and based on my experience of working with our international clients, the best strategy for newcomers to the Ukrainian market is to search for a good local partner who has worked for a long time in the market and set up a joint venture. I would also advise new investors to use good lawyers who understand the local market and trust in their advice; steady nerves and patience are also necessary attributes for successful investment in this country. As an international law firm we advocate the client's interests in the Ukrainian market by offering many years of experience here and, where necessary access to global resources. We sometimes have to perform as mediators, when we work on a project between a foreign client and his/her Ukrainian partner. We try to eliminate "translation difficulties" which are often the cause of problems between partners. Most Ukrainian companies are in the process of educating themselves on international standards but their foreign partners frequently need to be informed of local peculiarities.

Do you believe that branch organizations, such as the URE Club assist with attracting foreign funds to the Ukrainian real estate market?

They can, undoubtedly. I consider that the emergence of organizations such as the URE Club indicates positive dynamics in the market. This is an encouraging trend. When market participants cooperate, this stimulates further development in the sector, and investor interest in Ukraine is increased by regular events. However, the issue of investment in Ukraine cannot be resolved by internal measures alone. This year, there was no event on Ukraine held at the MIPIM conference, though there were some events on Russia. In order to attract foreign funds there should be political will and common efforts by all existing market participants, and not just efforts by a limited number of companies and organizations. We hope that this will improve in the coming years.

Artem Zhebrovskiy:

«Success is possible for those who sell investment projects together with a package of consulting services»

Despite the fact that investment market in Ukraine is estimated as a highly promising by experts, few foreign investors are far from rushing to invest in Ukrainian real estate. In addition, there is a significant gap between the investment markets in the capital city and regions of Ukraine. Artem Zhebrovskiy, a managing partner of Global Estate, in interview with Ukrainian Real Estate Club tells about the reasons for this situation, methods of work in these conditions, companies providing investment management, and answers if the situation will change in this area for the better.

Recently experts see some kind of stabilization of investment demand in Ukraine, particularly in the segments of office and real estate. Do you agree with this opinion, and how do you evaluate investment climate in our country in general?

As for the office segment, it is true. Nowadays the number of proposals for new business centers significantly increased and not only in capital city, but also in major cities, which influenced the investment attractiveness of such projects. With regard to commercial real estate, in my opinion, on the contrary, the market is still far from saturation and the amount of construction and mall shopping centers in Kiev, Donetsk, Kharkov, Odessa reveals high potential of the market.

The investment climate in our country has always been difficult. However, the real estate market remains active and it has single large transaction (for example Central Department Store purchase). As a rule, foreign investors require transparent and clear rules of the game together with projects: clarity of the judicial system, clear procedures, transactions, etc. Therefore, improvements in climate can be expected in further market liberalization through legislative initiatives (reduction of bureaucratic procedures, especially). We need foreign investment not only for increasing the volume of the market, but also for changing the quality of this market making it more European.

Global Estate company currently manages different projects: logistics park, office center etc. In addition, there are several hotel projects and trade shopping centers. Which segment do you think is the most promising according to its investment attractiveness for developer today? Why?

Today the most active development have residential, retail, shopping center construction, global hotel operators, who came to Ukraine, gave a strong push to hotel segment. However, there is a certain lack of quality logistic facilities on which we focus.

We have selected the most profitable suburban areas with actively used export-import logistic flows. We search for investors for the logistic park in Bucha. Similar but smaller projects are planned next to airport area, which will experience a surge of investments next few years.

Most of the projects submitted by Global Estate are located outside the capital. It has been suggested that this year investors for the first time since the crisis began to pay attention not only to the capital market, but also to million-cities. May it change the situation for the better in regions?

Kiev market is close to saturation. This is especially true for office real estate. Residential and commercial property has opportunities for growth. It is time for development of suburbs. Population outflow to the suburbs leads to the displacement of the infrastructure. Already, in the suburbs of big cities there are a lot of shopping malls. I think that tomorrow some office buildings also will move out of the city center. Large companies will lease office space there, limiting their presence with a small representative office in «expensive» city center. These trends are typical for the capital, and they are gradually extended to other major cities. UEFA Euro 2012 gave a bit of «internationalism» to Donetsk, Kharkov, Lviv. In case of competent and balanced policy all infrastructure can be well used and developed.

How do you think is the difference in investment climate between Kiev and regions significant?

Yes, it is. Kiev is a universal center. Our regional centers are strong only in certain areas. Lviv has status of a tourist center, where there are no large industrial companies. Donetsk, on the contrary, is an industrial giant, it is not designed for tourism. Kiev does not suffer from such kind of one-sidedness. That's why its investment potential is higher. Companies arriving in Ukraine first of all settle in Kiev. Large domestic companies do the same. Kiev accumulates investments. To change the situation in regions, it is necessary to align the structural distortions: investment package should be presented as a comprehensive solution in order to give investor several advantages.

Do you think it is possible to increase the number of classic investment transactions in near future (the acquisition of functioning real estate object by investor)?

This is possible through redistribution of the market. That redistribution (change of the owner of a functioning object) is possible. This scheme was used during the sale of «Ukraina» department store. Today such transactions may be interesting for investment funds, but their involvement needs a stable political situation.

Tell us about new projects of Global Estate. What is their conceptual difference compared with other development projects? Have you used innovative solutions for the implementation of your new objects?

We have engaged in promotion of Ukrainian development projects abroad already for 2 years. A number of development projects near Airport and in suburban areas of Kiev were presented at the international exhibition MIPIM in Hong Kong in autumn of 2011 to local and global investors. In the midst of preparations for Euro 2012 our projects



Artem Zhebrovskiy, a managing partner of Global Estate

looked very important. During the exhibition we participated in discussions, which were able to understand the priorities of foreign investors in selecting sites for investing abroad.

The foreign investor is searching for not just profitable projects, but he requires the services of a «conductor» or a consultant. He wants to acquire a project together with its implementation in post-crisis Ukraine. Success is possible only for those companies that can sell an investment projects together with a package of consulting services to a client. In other words, you must not only be an expert in construction and operation of facilities, but also to be an expert «in Ukraine». And the second one is often more important than the first. We decided to offer investors a comprehensive approach, because otherwise the interest of foreigners is quite difficult to achieve. Closeness and autonomy of the market is frightening. Despite the entry into the WTO and various efforts to liberalize trade with Russia and Europe, Ukrainian market in the eyes of the investor is quite specific and not worth the risk. Interest can only be seen if you offered a clear realization of the object and the efforts to implement it.

Does the company have their own vision of how to attract tenants to business centers?

Nowadays it is no longer enough to offer only the areas. Tenant wants more options, so if a commer-

cial way to attract tenants (rent reduction) is not effective - you can try to improve your proposition. For example, to sell the area, along with a «bonus» package of services (internet, utility rooms, services, cleaning companies, transport links, etc.). This helps to keep the price high enough to rent, which in turn keeps the image of the leased object.

Global Estate, among other things, provides service of investment management. Is it in demand among Ukrainian companies? May the facilities management and investment management achieve the same popularity in Ukraine as in Europe?

Investors need that the object was acquired under the control of a competent manager, who rules under local regulations. The investor is often simply the owner of funds, which need not to be an expert in real estate or in any other area of investments. That is why the investment management is a necessary stage of the work with investor. We propose to manage investments in Ukrainian commercial real estate.

Many experts say Ukraine has great potential for economic development, but it is poorly used. Or used incorrectly. Do you agree with this statement? And how can you (if necessary) change it?

Ukraine is a big European state. At the start of independence Ukraine's economic potential was comparable with the potential of Germany or France. During last twenty years it was not used properly. As a result the country with huge agricultural and industrial capacity was stuck at the end of human development index (76-th place according to the UN report in 2011) and it is far from TOP-10 of



Global Estate presentation at MIPIM

the largest GDP, where our Russian neighbors have entered recently.

What does this mean? The shortage of competent managers. Not a lack of material resources, but actually a lack of effective long-term development plan, lack of the ability to fit into the existing situation on the world market and to act. We somehow are involved in the world market processes, but not in the role in which we would like. In order to be to provide cheap labor and raw materials you don't have to improve the investment climate. We do not have enough high-tech projects, which would be interesting abroad. And if they are avail-

able, the existing legislation does not allow them to develop well in Ukraine. Concerning high-tech I would mention alternative energy technology, «tech-parks» that are now rarely having the support of the state in sufficient volume. The success of our development depends primarily on the approaches to innovative projects, and ultimately, of thinking. We need to understand the business in a different way - not as a tool for earnings, but also as a creative work that builds new reality - and suggest that understanding to the world. We should find, finally, a common language in which the Ukrainian ideas and brains would receive adequate recognition of the global market.

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*Whatever you do, you need to do well,
even when committing a frenzy.*

Honoré de Balzac



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