

# Promprylad Project Business Plan /short version/



PROMPRYLAD  
RENOVATION

11 January 2018





# 1. Executive Summary

## Promprylad Project

### General information about the Project

Promprylad Project is an impact investment project focusing on revitalization of a former industrial area in Ivano-Frankivsk. The project aims at fostering regional social and economic development in four key areas: new economy, urbanism, contemporary art and informal education.

Project initiator is Teple Misto Platform, a charitable foundation organized to implement social projects in Ivano-Frankivsk.

The Project encompasses renovation of factory buildings and their subsequent lease to third parties, as well as use of remaining space for social and charitable functions. In order to implement Investment Project the Platform intends to attract funds from companies, individual investors, IFIs and from various national and international NGOs. The funds attracted from investors and donors will be used for acquisition of Promprylad Plant and renovation of the property.

Project founders include various non-profit companies and foundations such as Teple Misto, Insha Osvita, PACT Ukraine, MitOst and LvBS. Promprylad Project partners include Renaissance Foundation, Kingdom of Sweden, Robert Bosch Foundation, etc.

Project Team consists of the following members: Yuriy Fyliuk (CEO), Oleksandr Tokmylenko (COO), Maksym Nemesh (Chief Development Officer), Halyna Gryvnak (Chief Accounting Officer), Tetiana Vasylyk (Partner Relations Coordinator) and others.

### Site location and surroundings

The former factory is located in the central part of Ivano-Frankivsk on 23 Akademika Sakharova street. The site location is favorable due to close proximity to the city center and good pedestrian and transport accessibility of the site: walking distance to the city center is approximately 10 minutes. The nearest surrounding of the property is represented by office buildings, residential houses and various street retail properties. Another factor in favor of the Project is good visibility and recognition of Promprylad due to the façade position on the crossroads of Sakharova and Melnyka streets.

The total area of existing factory buildings comprises 28,792 sq. m. The factory is located on the leased land plot with the total area of 1.86 ha.

### Project concept

Promprylad Project is a new format ecosystem that includes a combination of various elements such as informal education, urbanistic projects, modern art and new economy. All of these elements may be categorized into six functional areas: live, work, play, eat, shop and create.

Office use (work function) represents the largest share of the Project's total area – approx. 46%. Culture, R&D, experimental and leisure uses together account for approx. 35% of the total space in the Project (play, eat, create functions). The Project concept also envisages development of hotel, hostel and serviced apartments which together account for ca. 12% of the total development area.



Total area of Promprylad Project  
after renovation

**37,871 sq. m**

GBA, including construction of new office buildings

Gross leasable area of the Project comprises 31,094 sq. m

# 1. Executive Summary

## Promprylad Project

### Rental rates and OPEX sensitivity analysis: Scenario 1

Rental rates and operating expenses annual growth index	NPV	IRR	Annualized return	Project payback period
-1.5%	(\$1,005,681)	10.7%	4.9%	13.7 years
0%	\$285,918	13.7%	6.3%	12.9 years
1.5%	\$1,710,080	16.7%	7.8%	12.1 years
3.0%	\$3,278,589	19.7%	9.2%	11.4 years
4.5%	\$5,004,103	22.7%	10.6%	10.8 years

### Rental rates and OPEX sensitivity analysis: Scenario 2

Rental rates and operating expenses annual growth index	NPV	IRR	Annualized return	Project payback period
-1.5%	(\$761,469)	11.2%	5.6%	13.2 years
0%	\$325,890	13.9%	7.0%	12.4 years
1.5%	\$1,523,683	16.7%	8.4%	11.7 years
3.0%	\$2,841,674	19.5%	9.8%	11.1 years
4.5%	\$4,290,347	22.2%	11.2%	10.5 years

The tables above demonstrate the outcomes of the sensitivity analysis as to possible fluctuations in projected rental rates and operating expenses growth dynamics.

The detailed sensitivity analysis is presented in the Section 7 of this Report.

Architectural concept of Promprylad Project was designed by FORMA Architects. The detailed architectural plan is presented in Section 4 of this Report.

### Financial analysis

As instructed by the Client we have considered two development scenarios:

- Scenario 1 includes construction of two new office building
  - Scenario 2 implies no new construction on site. Some key assumptions and limitations to the analysis
  - The total investment volume includes costs for the acquisition of the Plant. The development budget and estimated acquisition costs were provided to us by the Client.
  - Renovation of social function premises (\$2,270,000) is to be covered by grants and donations.
  - The total investment volume includes costs in the amount of approx. \$800,000 that have already been allocated for renovation of the Promprylad Pilot Project.
  - The Project concept stipulates that after dividend payout 50% of the Project operating profit will be channeled to social initiatives. Before that investors are given the priority and get 80% of operating profit.
- The key results of the financial analysis are presented below.

### Sensitivity analysis

The sensitivity analysis was carried out over the input data vulnerable to market fluctuations and which may notably affect the final results of the financial analysis. The key factors of the sensitivity analysis are:

- Rental rates and operating expenses growth index
- Capitalization rate
- Construction budget
- Discount rates for investment and operating period

	Project GBA	Total investment volume (including acquisition of the Plant)	Construction budget (including VAT)	Stabilized NOI	IRR	Project Payback period
<b>Scenario 1</b>	<b>37,871</b>	<b>\$24,958,146</b>	<b>\$20,958,146</b>	<b>\$3,191,652</b>	<b>16.7%</b>	<b>12.1 years</b>
Including construction of new office buildings	Project area after renovation, sq. m	Total investment volume of the Project	Total construction budget of the Project	Stabilized annual net operating income in 2025 year	Internal Rate of Return of the Project	Payback period for investors comprises 13.8 years
<b>Scenario 2</b>	<b>34,353</b>	<b>\$20,088,230</b>	<b>\$16,088,230</b>	<b>\$2,668,683</b>	<b>16.7%</b>	<b>11.7 years</b>
No new construction	Project area after renovation, sq. m	Total investment volume of the Project	Total construction budget of the Project	Stabilized annual net operating income in 2025 year	Internal Rate of Return of the Project	Payback period for investors comprises 13.4 years

## 2. Project Overview

### Key Achievements and Partners

#### Project founders and partners

Teplo Misto	<ul style="list-style-type: none"> <li>✓ Group of non-profit companies.</li> <li>✓ Co-founder of Promprylad Renovation charity fund;</li> </ul>
Insha Osvita	<ul style="list-style-type: none"> <li>✓ Non-profit company.</li> <li>✓ Co-founder of Promprylad Renovation charity fund;</li> </ul>
PACT Ukraine	<ul style="list-style-type: none"> <li>✓ Non-profit international development organization.</li> <li>✓ Potential strategic partner, member of Promprylad Renovation fund;</li> </ul>
MitOst	<ul style="list-style-type: none"> <li>✓ International volunteer organization.</li> <li>✓ Potential strategic partner.</li> <li>✓ Expert in public opinion research.</li> </ul>
LvBS	<ul style="list-style-type: none"> <li>✓ Project Partner.</li> <li>✓ One of the leading business schools in Ukraine with Executive MBA and Masters courses.</li> </ul>
Renaissance Foundation	<ul style="list-style-type: none"> <li>✓ International foundation;</li> <li>✓ Donor program partner;</li> <li>✓ Fosters open, participatory, pluralist society based on democratic values in Ukraine.</li> </ul>
CANactions	<ul style="list-style-type: none"> <li>✓ Non-profit organization, educational platform;</li> <li>✓ Provides educational programmes, trainings and workshops on pro bono terms.</li> </ul>
Kingdom of Sweden	<ul style="list-style-type: none"> <li>✓ Swedish International Development Cooperation Agency;</li> <li>✓ The key mission of the programme is to reduce the poverty in the world.</li> </ul>
Robert Bosch	<ul style="list-style-type: none"> <li>✓ Charitable foundation.</li> <li>✓ Provides support of various social projects worldwide.</li> </ul>
Impact Hub Odesa	<ul style="list-style-type: none"> <li>✓ Member of global network of community centers, business incubators and innovation labs;</li> <li>✓ Provides expertise on co-working segment.</li> </ul>
23 Restaurants	<ul style="list-style-type: none"> <li>✓ Private business (limited liability company);</li> <li>✓ Restaurant chain.</li> </ul>

#### Key achievements of the Project founders

The coalition of five powerful institutions (Teplo Misto, Insha Osvita, PACT, MitOst, LvBS) is based on shared values, as well as combination of their individual success stories and competencies

Project founders have successfully launched Urban Space 100 restaurant: 100 co-founders have equally financed the Urban Space 100 opening.

Successful experience of Urban Space 100 is a practical evidence of the fact that the constructive consolidation of local government, business and civil society guarantees a strong synergetic and sustainable, economically balanced result. This case has transformed into a model that is currently being distributed throughout Ukraine in the form of a social franchise. Urban Space 500 is currently being opened in Kyiv in cooperation with the NGO Insha Osvita, and the opening of further public restaurants is already on the agenda

50 local business associations provide regular institutional support to civil society in Ivano-Frankivsk and various urban programs, informal education, contemporary art and independent media.

## 2. Project Overview

### Project Implementation – Current Stage

#### Stage I

- ✓ Development of the vision and the general concept of the Project (via hackathon with professionals in various spheres of expertise);
- ✓ Overview of international best practices – successful revitalization projects worldwide;
- ✓ Establishing the list of potential partners;
- ✓ Development of the Project road map.

#### Stage II

- ✓ Studying economic potential of Ivano-Frankivsk region;
- ✓ Modelling an effective eco-system of the project (includes potential functions and concerned parties);
- ✓ Basic plan (SRI international);
- ✓ Research and development of two architectural concepts (Zotov&Co and FORMA Architects);
- ✓ 3rd floor pilot project draft (Zotov&Co);
- ✓ Designing a legal model for common investment (Moris Group);
- ✓ Stakeholder analysis (School of System Changes);
- ✓ Marketing, branding and communication (Aimbulance);
- ✓ Anthropological research (Garage Gang, Krolikowski Art);
- ✓ Research of artistic environment and establishing the concept of the gallery (Insha Osvita, Art Management);
- ✓ Public opinion research (Actors of Urban Change, MitOst);
- ✓ Social impact investigation in the form of Social Return on Investment (PACT Ukraine).

#### Accomplished stages

#### Stage III

Pilot Project launch (2,368 sq. m) – renovation and start of operation of the pilot floor at the Plant.

#### Current stage

#### Stage IV

- ✓ Launch of crowd investing campaign. 2018-onwards
- ✓ Buying out the plant
- ✓ Renovation of the plant
- ✓ Implementation via common investment model Promprylad
- ✓ Buying out the plant and gradually implement reconstruction of the premises and territory;
- ✓ Launching new renovated spaces and introduction of new functions and players;
- ✓ Implementation of the project via common investment model (financed by local residents, companies, Ukrainian and international foundations and investors).

### 3. Site Overview

## Physical Characteristics and Legal Status <sup>1</sup>

#### Description of Promprylad Plant

Source: Client's data, Moris Group

Type of the property	Property complex
Owner	JSC Ivano-Frankivsky Plant PROMPRYLAD
Documents provided by the Client	Moris Group legal due diligence report
Total area of buildings on the site, sq. m	28,792.1
Land plot, ha	1.86
Cadastral number	2610100000:06:003:0227
Legal status of land plot	Perpetual use right, granted by former Soviet authorities
Utilities	Electricity, gas, water are available (terms of access are not formalized)

#### Key facts about the property

- ▶ Promprylad is a gas meter production factory, which is currently operating on 10% of its capacity;
- ▶ The total area of the land plot is 1.86 ha. Promprylad has perpetual land use rights;
- ▶ As at April 12, 2017, 82.38% of JSC Promprylad shares are controlled by Kinto Investment Group and related companies;
- ▶ According to the information provided to us, the Client intends to acquire the shares of the Promprylad Plant from its current holder – Kinto company.

#### Legal information

- ▶ Legal due diligence carried out by Moris Group identified a number of legal risks related to the property: throughout the time, different building were sold to different owners, and therefore the whole complex was split to a number of properties with multiple owners and several land plots. Some of the actions were made without appropriate procedure, and some of the documents regarding ownership are missing. Furthermore, some of the buildings were destroyed in different times, and there is no ownership rights of utilities infrastructure;
- ▶ Currently, Promprylad share of ownership in property complex is 9622/10000;
- ▶ According to the recommendations provided by Moris Group (legal advisor), the title documents and building plans shall be formalized prior to the transaction.

Promprylad Plant



#### Buildings on site

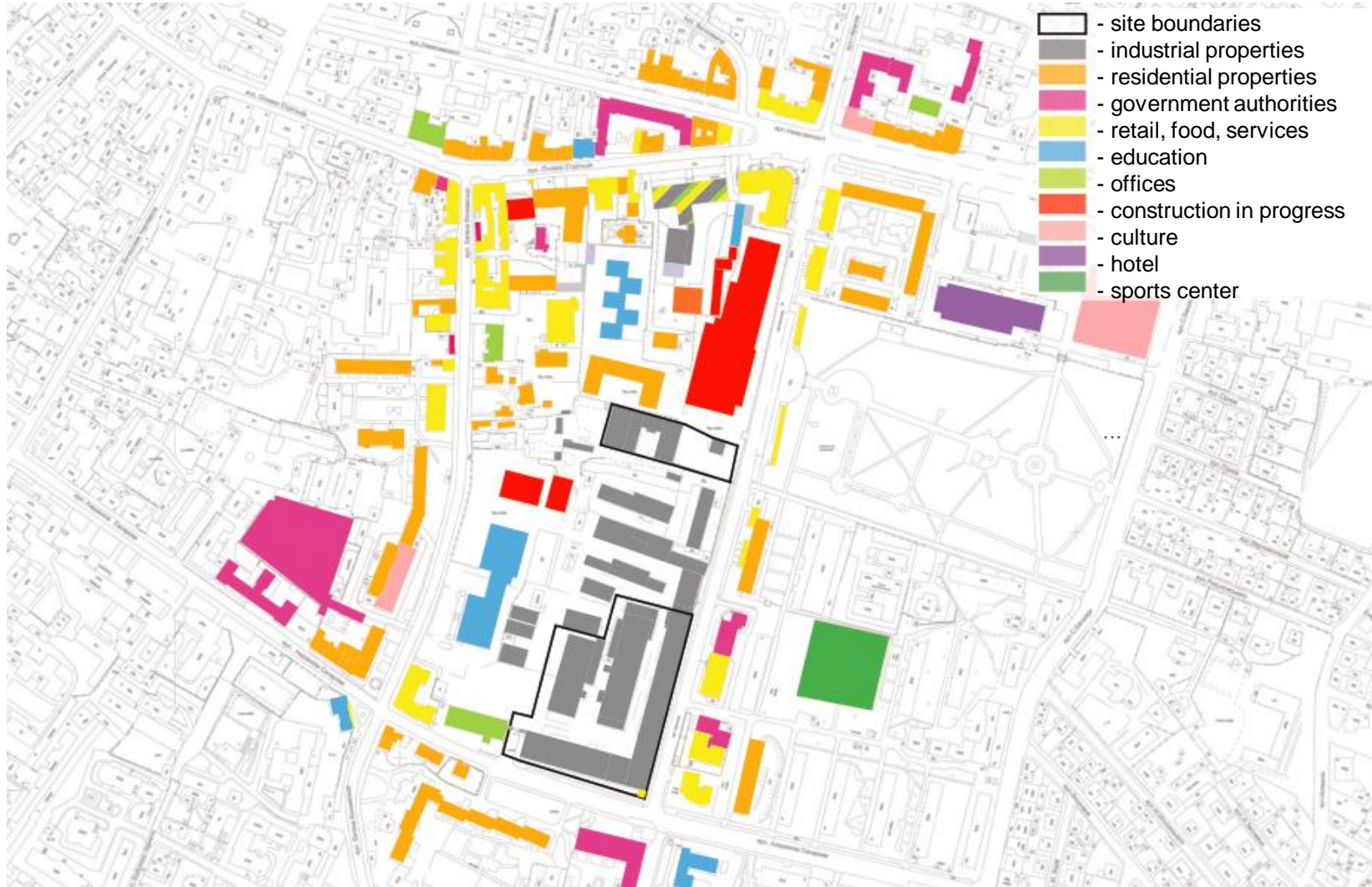
Building ID	Total area, sq. m
Building 5	8,401
Building 1	9,989.7
Building 2	3,820
Building 7	4,830.1
Building 22	966
Building 21	668.9
Electrical substation	116.4
<b>Total area</b>	<b>28,792.1</b>

<sup>1</sup>Information presented here is provided by the Client



### 3. Site Overview

#### Property Location and Surroundings





### 3. Site Overview

## SWOT Analysis

#### Strengths

- ▶ Location close the main sources of demand (proximity to the central part of the city)
- ▶ Excellent visual accessibility due to façade location along Sakharova and Melnyka streets
- ▶ The Subject property is easily accessible by both public and private transport

#### Opportunities

- ▶ The total area of the Site allows development of successful large-scale innovative project with all the necessary infrastructure on site
- ▶ The new appearance of Promprylad will make a great contribution towards district development

#### Weaknesses

- ▶ Legal risks due to complicated ownership structure of buildings on site
- ▶ Buildings and constructions located on the Subject site are physically outdated with poor technical condition
- ▶ Land plot title was issued by Soviet authorities and is not formalized yet
- ▶ No parking facilities on site

#### Threats

- ▶ Any renovation or development has to be approved by various government authorities
- ▶ No ownership rights and unknown technical condition of utility networks

## 4. Project Concept Overview

### Project Description<sup>1</sup>

#### Project background

Promprylad.Renovation is an innovative center at the territory of revitalized plant in Ivano-Frankivsk focusing on four areas: development of new economy, urbanism, contemporary art and informal education. The project aims to fulfill the potential of the city and the region, stimulate entrepreneurship and economy and create an acting model for other cities.

Within five years the Project is planning to attract over UAH 700 million investments from private investors and organizations to gradually put up six buildings and a park. The project will include office space, laboratories, workshops, exhibition and entertainment centers, hotel and hostel, farmer's market, restaurants and much more. In addition, one-third of area will be rent out to public, cultural and social initiatives at a lower rate, whose vision coincides with the one of the Project.

#### Stakeholders

The configuration of stakeholders from four sectors (local authorities, creative businesses, NGOs and media) should function as one cohesive unit and one ecosystem. The basic philosophy of Promprylad is comprised of active participation of the local community, self-management of the stakeholders and participatory governance.

#### Project area breakdown by function



#### Four groups of participants will be involved in the project:

##### 1. Project Operators:

Anchor partners – a group of project partners who fully agree on the image and values of the project and take an active part in the implementation of the project sharing ownership for it, as well as all of the responsibilities and risks.

Stakeholders – a base of powerful, ambitious and self-sufficient players with specific business or social functions which will operate on the territory of Promprylad on the regular basis and will play their synergistic role in general ecosystem.

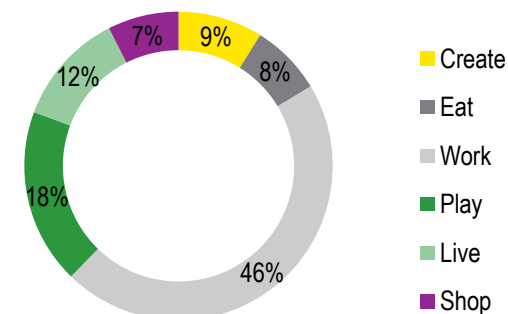
##### 2. Project investors:

Foundations and sponsors – the institutions and individuals who will provide non repayable financial support or impact investment at the initial stage in order to support the project's mission. Impact investors – this group of players can appear in the project additionally depending on results of fundamental studies during the second stage of the project.

##### 3. Project beneficiaries and co-creators:

Community – the main participant, beneficiary and co-creator of the project involved in the co-creation of the space with free access to the Promprylad. Neighbors – organizations and actors who are geographically close to the territory of Promprylad, are informed about the project and are interested in joining relevant economic and consumer synergies with it.

Government – the supporters of the project implementation, providing the necessary approvals and permits.

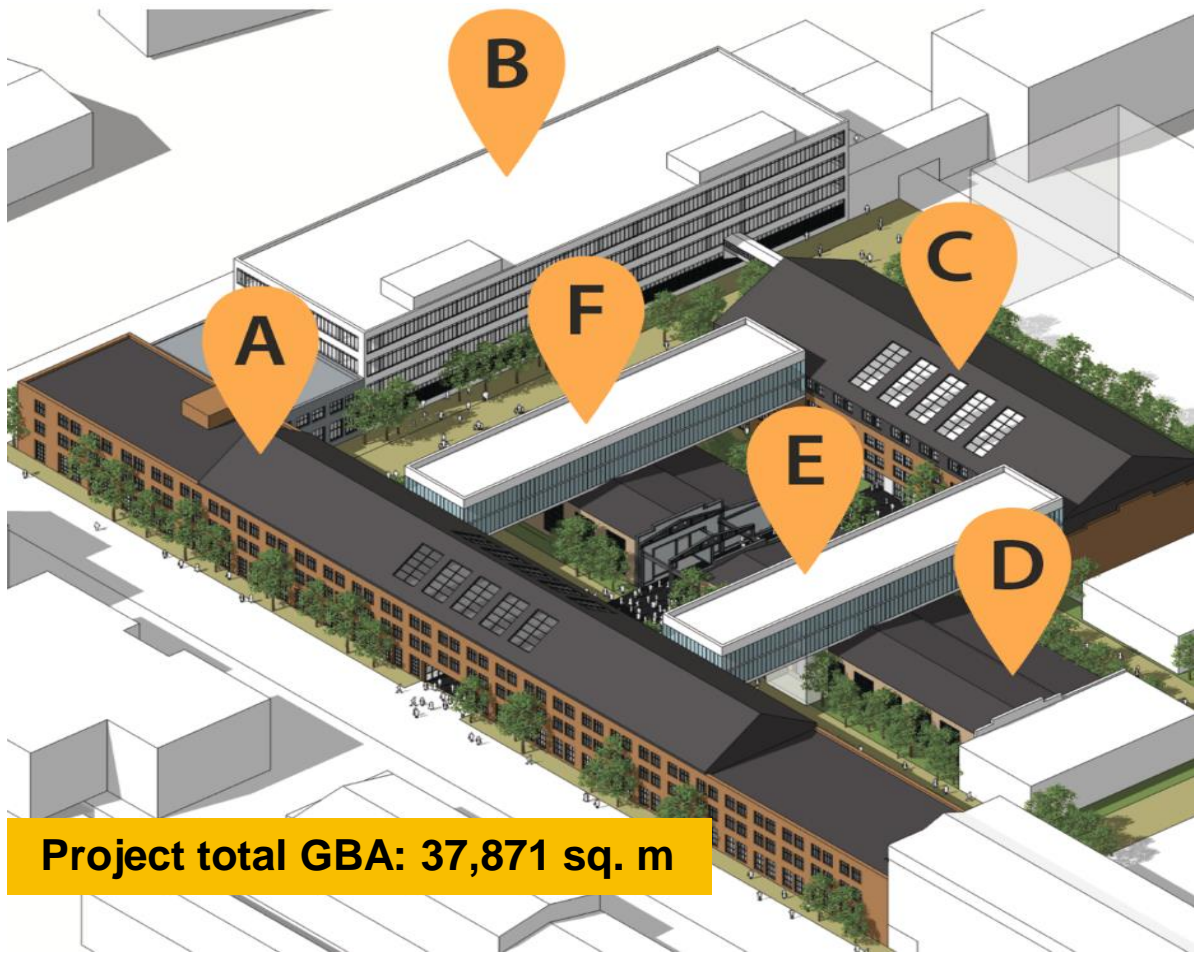


Source: Client's data

<sup>1</sup>Information presented here is provided by the Client

# 4. Project Concept Overview

## Architectural Plan of the Buildings on the Site



Project total GBA: 37,871 sq. m

Source: Client's data

Architectural plan (GBA, sq. m)

A	Hotel	1,623	Apartments	800
	Street retail	1,349	Restaurant	796
	Market	1,469	Food	473
	Fitness Center	1,267	Green beds	661
	Office	2,426	Terrace	633
B	Promprylad Pilot	1,974	Mezzanine office, 4 <sup>th</sup> floor	404
	Brewery	901	Children's center	434
	Office, 1 <sup>st</sup> floor	698	Art center	819
	Office, 2 <sup>nd</sup> , 4 <sup>th</sup> floor	3,912	Promprylad Pilot (terrace)	394
	Mezzanine office, 2 <sup>nd</sup> floor	404		
C	Fab-Lab	784	Kysla Brewery	512
	Visitor center	191	R&D Center	1,279
	Promprylad Museum	239	Hostel, phase 1	1,039
	Recycling center	111	Hostel, phase 2	1,039
	Bicycle Hub	57	Office	3,643
D	Concert Hall	960	Cinema*	1,575
	Exhibition Hall	1,486		
E	Office*	1,770		
F	Office*	1,749		

\* New construction



## 4. Project Concept Overview

### Project Marketing Strategy <sup>1</sup>

1. Research, brainstorming, strategy sessions

2. Branding, launch of the facebook page, detailed presentation of the project

3. Pilot launch, press-conference for the city mass-media

#### 4. Launch of crowd investing campaign

- ✓ Press-conference for the city media;
- ✓ Launch of the official Project promotion website;
- ✓ Launch of the promotion video;
- ✓ Active cooperation with the media;
- ✓ Active position in the social networks;
- ✓ Media coverage of the positive dynamics in number of investors, new partners and finance;
- ✓ Event plan for the upcoming year where the Project will be presented;
- ✓ Monitoring of the audiences' reactions and feedback.
- ✓ Market analysis to identify the potential target audience, development of strategies and tools to approach the TA. The market analysis will be carried out in cooperation with Olga Buchenko (partner in Sweden) and the Project marketing director.

#### External communications policy

Management team is responsible for external communications in line with the adopted strategy.

The administration of Promprylad.Renovation shall approve the communications strategy and pass it to the management team.

Additionally, Promprylad administration may monitor the quality of information provided by the management team.

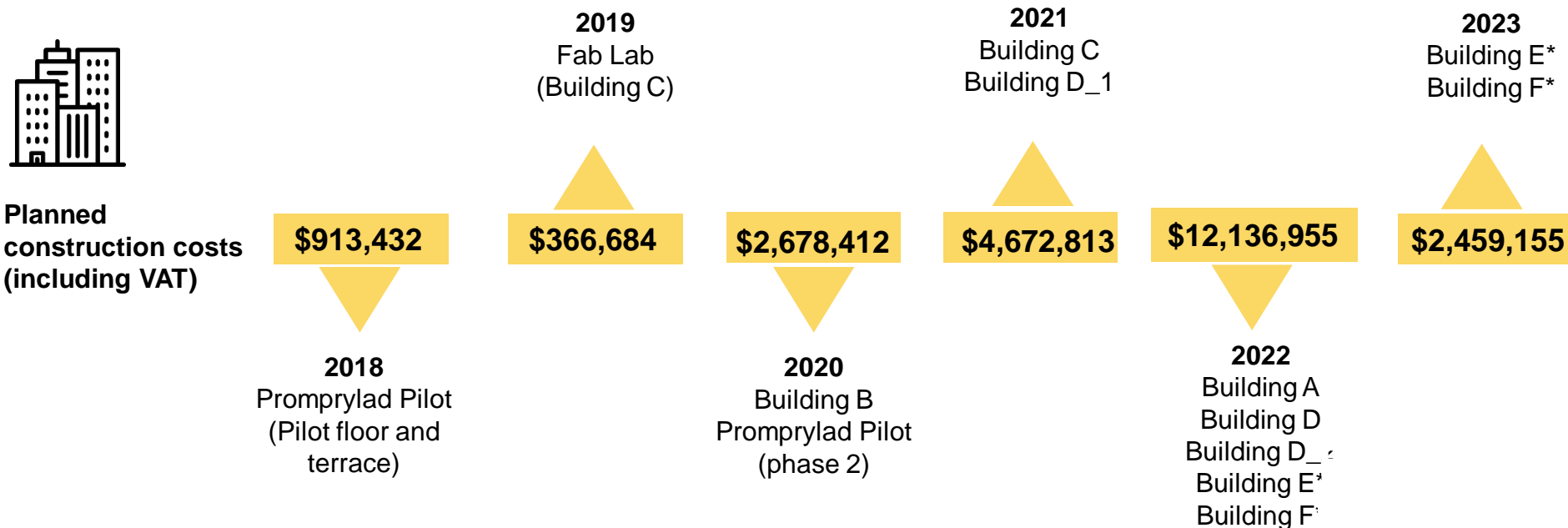
Furthermore, Promprylad.Renovation administration may conduct direct communications via official statements or intervene where necessary.

However, this has to be approved by all of the Project partners or via general meeting. The members of Promprylad administration may not communicate individually on behalf of the Project.

<sup>1</sup>Information presented here is provided by the Client

## 4. Project Concept Overview

### Planned Investment Volume and Construction Schedule <sup>1</sup>



Planned  
acquisition costs

\$1,000,000



**2018**  
Promprylad PJSC Acquisition  
(installment 1)

\$3,000,000



**2019**  
Promprylad PJSC Acquisition  
(installment 2)

**Project total investment volume: \$ 24,958,146**

**Project total construction budget\*\*: \$ 20,958,146**

\* Construction of two new office buildings (E and F) is optional and the Client intends to pursue the development under a built-to-suit arrangement

\*\* The total construction budget does not include the grants and donations that the Client anticipates to attract additionally (approx. \$2,270,000). The Client intends to channel the funds from donors into renovation of social function premises.

<sup>1</sup>Information presented here is provided by the Client

## 5. Project Management and Implementation

### Project Team



**Yuriy Fylyuk**  
Chief Executive Officer



**Oleksandr Tokmylenko**  
Chief Operating Officer



**Halyna Hryvnak**  
Chief Accounting Officer



**Ihor Marcuts**  
Operations Manager



**Kateryna Borysenko**  
Chief Communications Officer



**Maksym Nemesh**  
Chief Development Officer



**Iana Boitsova**  
Marketing manager



**Roman Ganzha**  
Chief of Construction Oversight



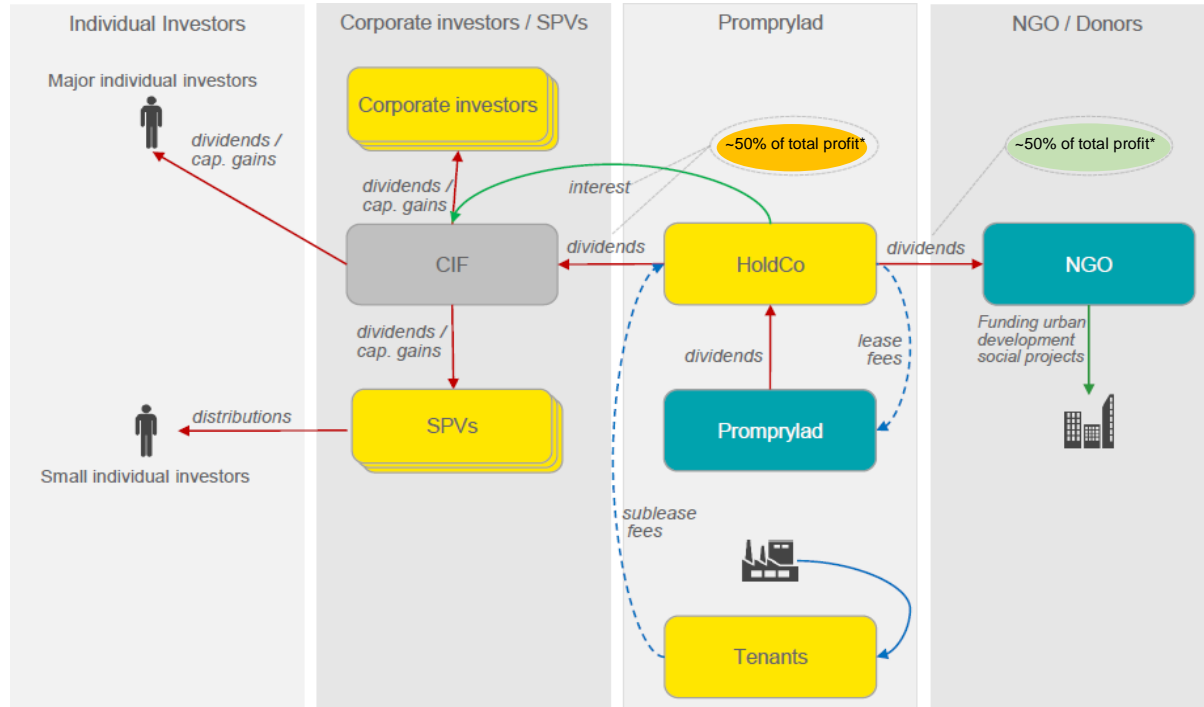
**Tetiana Vasylyk**  
Partner Relations Coordinator



## 5. Project Management and Implementation

### Preliminary Organizational Structure

#### Organizational structure



#### Promprylad

- Owns the Plant as the base of the Investment Project's development;
- Leases the Plant to HoldCo and uses the lease proceeds to maintain and renovate the Plant.

#### NGO

- NGO governs the Investment Project, controls 50% stake in Promprylad via HoldCo, is accountable to stakeholders for success of the Project and meeting its objectives;
- NGO finances social and charity activities, including on the basis of the revitalized Plant, by means of funding from donors and profit from the Project.

#### SPVs

- Intermediate companies, foreign and/or Ukrainian, that function as an instrument for engaging minor individual investors;
- Foreign SPV would enable attracting investment via foreign bank accounts, online payment platforms or via crypto-assets (bitcoins etc.), thus reducing compliance burden in Ukraine;
- Ukrainian SPVs may be suitable for individual investors willing to invest in Ukraine and undergo relevant compliance.
- SPV may use funds received from individual investors to buy shares in CIF, and receive income from the Project via dividends and capital gain on CIF's shares.

#### Corporate Investment Fund

- CIF serves as an instrument for engaging the corporate and individual investors into the Investment Project;
- CIF is a shareholder of HoldCo;
- CIF receives the Investment Project's profit in the form of interest from and dividends from HoldCo, and further distributes income to investors;
- CIF's rights from shares in HoldCo are bound and restricted by SHA with NGO.

#### HoldCo

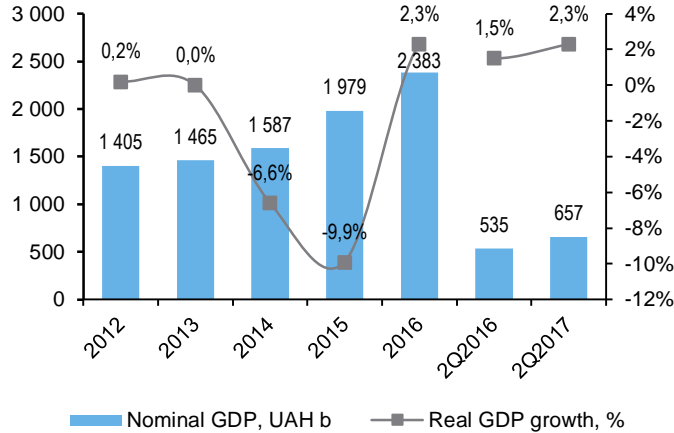
- An intermediary company between NGO (owns 50% of HoldCo), CIF (owns 50% of HoldCo) and Promprylad;
- Buys ≥ 82% of Promprylad's shares by means of a loan from CIF;
- All investments into the Investment Project are channeled via CIF to HoldCo;
- Is the main operating entity of the Project: obtains funding from CIF, leases the Plant from Promprylad (at reasonably low price), invests into the Plant's renovation, then subleases it to third parties at market price -thus earns and distributes the profit;
- As a long-term lessor, HoldCo may directly invest into renovation of the Plant.

## 6. Market Analysis

### Ukraine Macroeconomic Overview

#### Real GDP growth in Ukraine

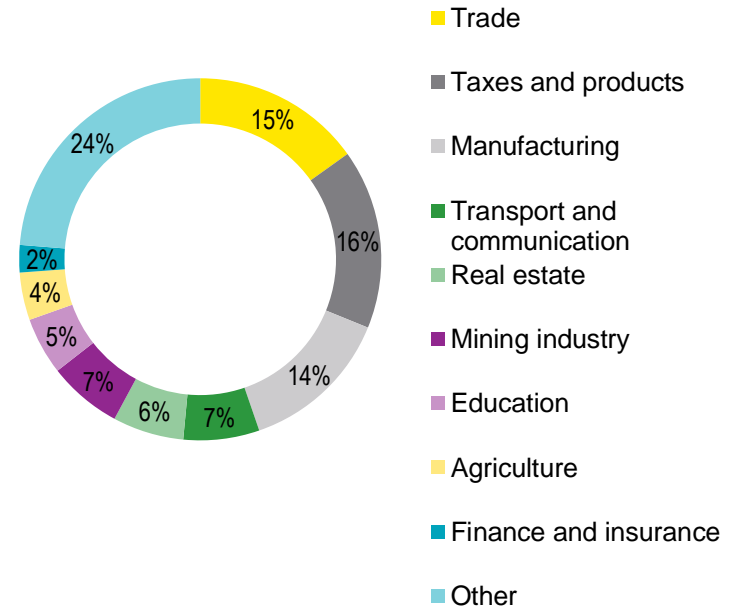
Source: State Statistic Service of Ukraine



#### Key factors

- In Q2 2017 real GDP growth was caused by increase in trade, taxes and products, manufacturing and transport segments.
- Sharp fall in finance and insurance sector in 2015-2016 (-27.7% and -15.7% respectively) was caused by the number of Ukrainian banks going bankrupt and tighter policies introduced by the Regulator.

#### GDP structure in 2Q 2017



Source: National Bank of Ukraine

Indicator	2012	2013	2014	2015	2016	2Q 2016	2Q 2017
Trade	0.7%	0.2%	-13.9%	-16.8%	4.0%	6.7%	3.8%
Taxes and products	-1.1%	-3.8%	-5.6%	-8.9%	2.0%	3.6%	3.1%
Manufacturing	-2.3%	-9.9%	-8.6%	-13.7%	3.6%	4.0%	4.2%
Transport and communication	-6.3%	0.4%	-10.0%	-1.4%	3.0%	2.5%	4.1%
Real estate	6.0%	6.7%	-1.9%	-8.4%	4.2%	6.3%	5.7%
Mining industry	0.2%	-3.1%	-15.4%	-14.3%	-1.0%	-3.6%	-5.7%
Education	5.5%	1.6%	-2.9%	-2.2%	-4.8%	-4.4%	-3.9%
Agriculture	-4.0%	13.0%	2.3%	-4.7%	6.0%	0.6%	-2.9%
Finance and insurance	1.9%	7.8%	-1.8%	-27.7%	-15.7%	-22.8%	0.7%
Other	1.0%	1.8%	6.2%	-3.8%	1.0%	7.2%	-5.3%
Real GDP growth. %	0.2%	0.0%	-6.6%	-9.9%	2.3%	1.5%	2.3%

Source: State Statistic Service of Ukraine

## 6. Market Analysis

### Ukraine Macroeconomic Overview

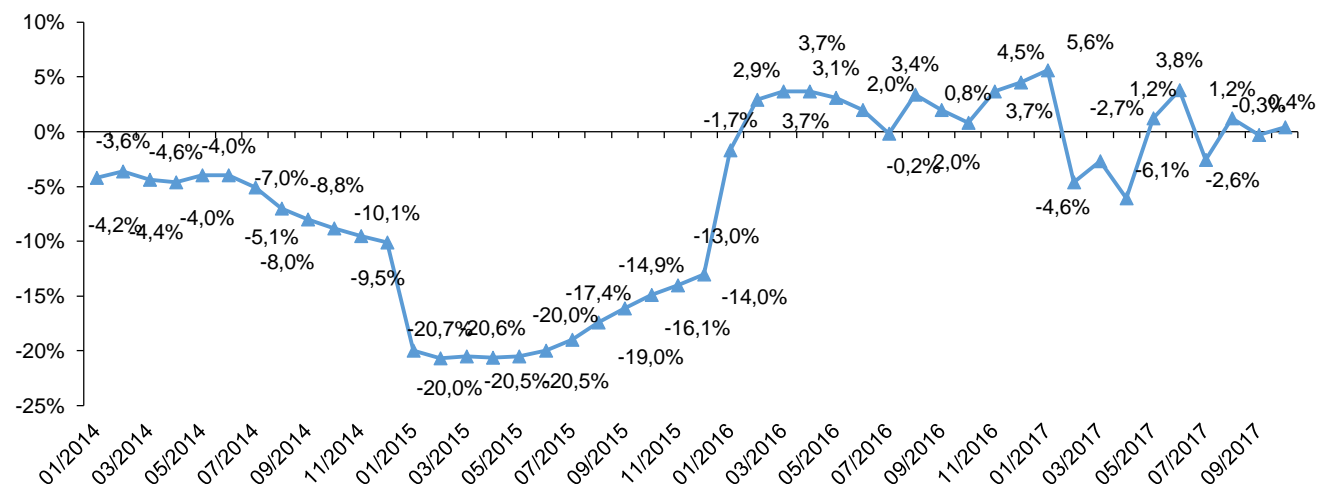
#### Foreign Direct Investment

- ▶ In Q3 2017 the total amount of FDI was 39.7 USD billion
- ▶ The highest proportion of FDI comes from Cyprus: more than 10 USD billion
- ▶ The Russian Federation's share in FDI is largely due to the completion of bank recapitalization programs approved by the NBU.

#### Industrial production

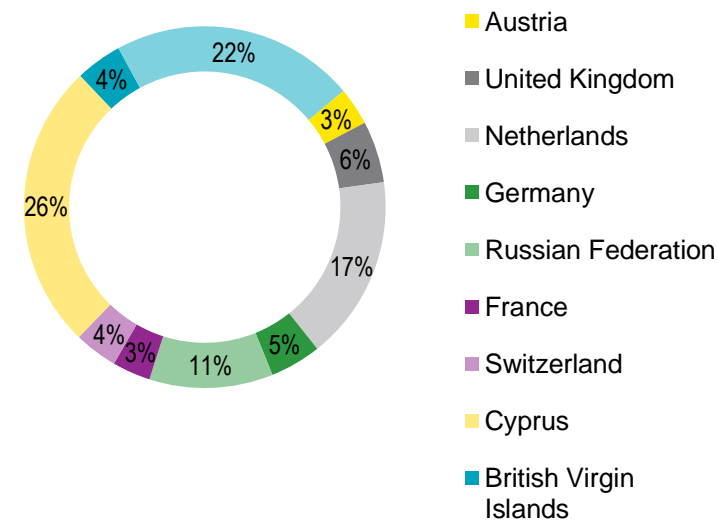
- ▶ In recent years industrial production in Ukraine has been very volatile due to economic fluctuations
- ▶ Since the end of 2016 industrial production has shown an overall positive growth dynamics.

#### Industrial production, year on year



Source: National Bank of Ukraine

#### Amount of FDI in Q3 2017



Source: State Statistic Service of Ukraine



## 6. Market Analysis

### Ukraine Macroeconomic Overview

Indicator	2013	2014	2015	2016	2017	2018F	2019F	2020F	2021F	2022F
GDP, % change	0.0	-6.6	-9.8	2.3	2.1	1.3	2.4	1.8	2.2	2.5
Exchange rate UAH:US\$ (av)	7.99	11.89	21.85	25.55	26.45	28.07	30.15	30.98	31.95	32.45
Consumer prices (av)	0.3	12.1	48.7	13.9	14.5	11.1	8.3	7.9	7.3	6.7
Personal disposable income (UAH b)	1 153.6	1 219.1	1 458.0	1 565.4	1 738.2	2 082.0	2 575.1	2 989.0	3 314.8	3 626.9
Unemployment (m)	1.5	1.8	1.7	1.7	1.6	1.5	1.4	1.3	1.2	1.0
Total external debt (US\$ billion)	149.1	129.0	121.3	118.0	125.8	126.4	129.1	135.2	141.0	148.1

Source: State Statistic Service of Ukraine, Oxford Economics, BMI Research

### Conclusion

In 2017, Ukrainian macroeconomic figures had positive signs of recovery: inflation rate decreased, industrial production began to recover, real income of population started to increase and total external debt was partially restructured.

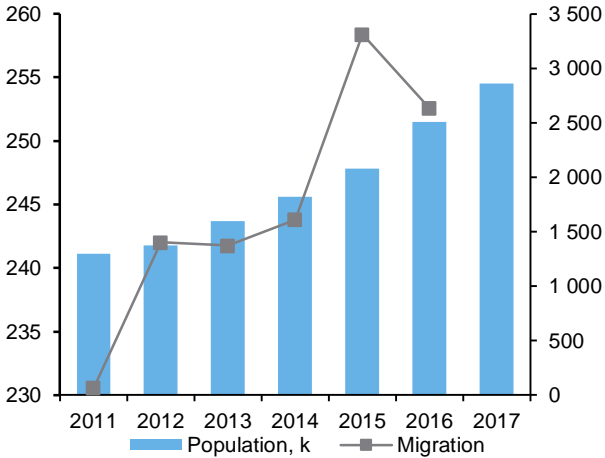
Nevertheless, Ukrainian economy is still strongly dependent on financial support from international partners in order to support macroeconomic stability.

# 6. Market Analysis

## Ivano-Frankivsk City Overview

Source: Statistical Service in Ivano-Frankivsk region

### Population and migration in Ivano-Frankivsk



### Demographic changes

- ▶ Since 2011, population in Ivano-Frankivsk had shown a steady growth: increased from 241 k people in 2011 to 254.5 k people in 2017;
- ▶ Both natural population growth and positive figures in migration change have contributed to steady population growth;
- ▶ The average age of population in 2017 is 38.2 years: 36.3 for men and 39.8 for women;
- ▶ Consequently, this increase in population implies that Ivano-Frankivsk is an attractive place for living and working;

### Population and migration

254.5k

population in January 2017

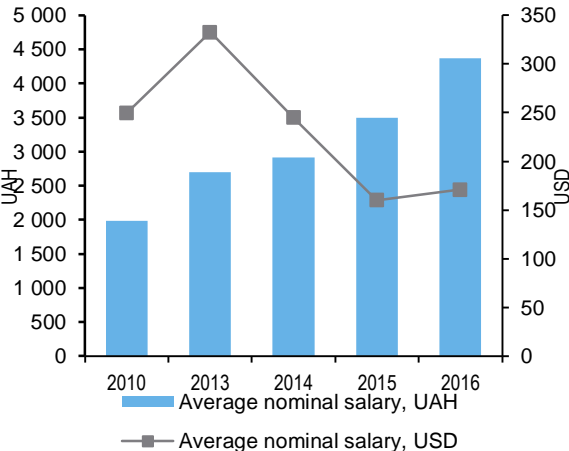
4,371 UAH

average nominal salary in 2016

69.8k

number of full-time employees

### Average salary in Ivano-Frankivsk



### Salary and labor force

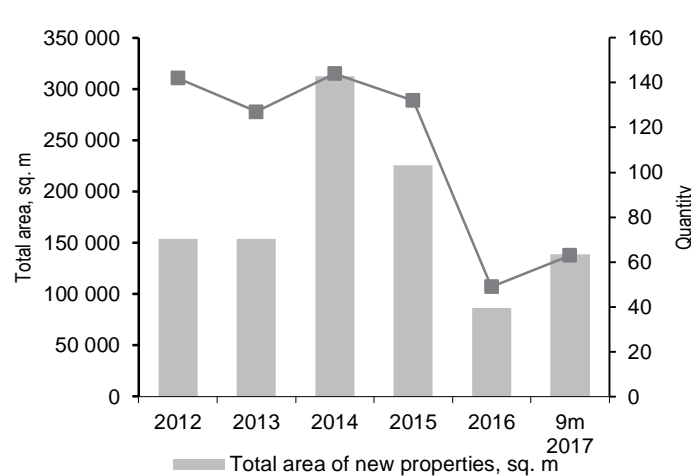
- ▶ In domestic currency, average salary in Ivano-Frankivsk had a positive year on year growth since 2010, peaking at 4,371 UAH in 2016;
- ▶ In contrast, since 2013 (when economic and currency crisis took place), average salary in US dollar has decreased sharply: salary went down from \$333 in 2013 to 171\$ in 2016;
- ▶ Compared to other European economies, average salary of 171\$ is very low, which makes labor force more attractive for international companies. On the other side, the number of full time employees has decreased from 73k in 2013 to 69.8k in 2016: this implies that employees may not be willing to work for such a low salary and seek employment elsewhere.

Source: Statistical Service in Ivano-Frankivsk region

# 6. Market Analysis

## Ivano-Frankivsk City Overview

### New residential properties in Ivano-Frankivsk



### Key trends in new housing

- ▶ The new housing market has been relatively volatile: in 2014-2016 the total area of new housing launched per annum went down from 313k sq. m in 2014 to 86k sq. m in 2016;
- ▶ Nevertheless, there is a good sign of recovery in housing market: in January-September 2017 a total of 63 new properties were developed and launched.

### New housing in Ivano-Frankivsk

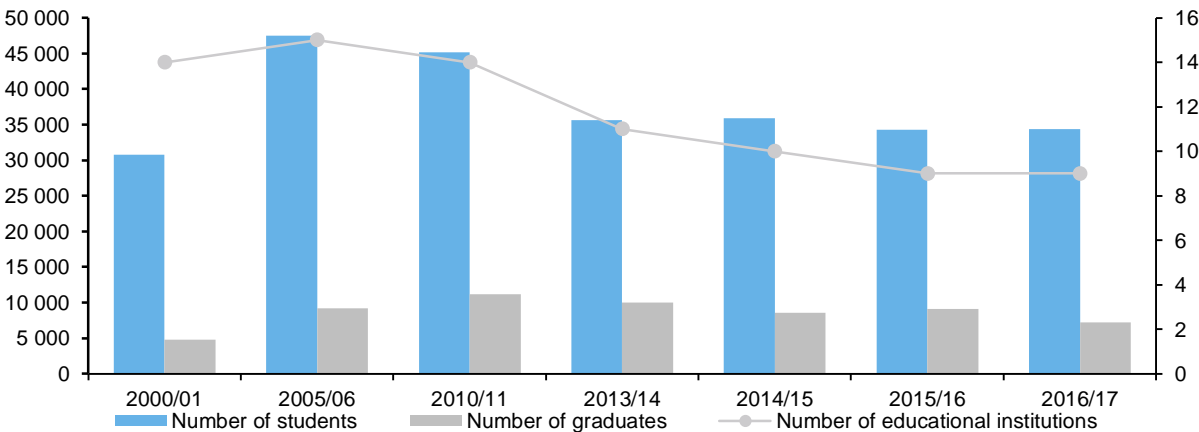
917,207 sq. m

The total area of new residential properties launched within the city since 2013.

The total area of residential housing in Ivano-Frankivsk is 5.87 million sq. m.

Source: Statistical Service in Ivano-Frankivsk region

### Higher education in Ivano-Frankivsk



### Key trends in higher education

- ▶ In 2016/2017 there were approximately 35k students and 7k graduates. Approximately 40% of the students choose Social & Economic Sciences and IT & Engineering;
- ▶ National University of Oil and Gas is the only University in the country with such specialization, and therefore technical graduates are demanded by employers in those sectors;
- ▶ Due to low salary expectations and proximity of the EU borders, many recent graduates choose to work across Europe.



## 6. Market Analysis

### Office Market

#### Key supply figures

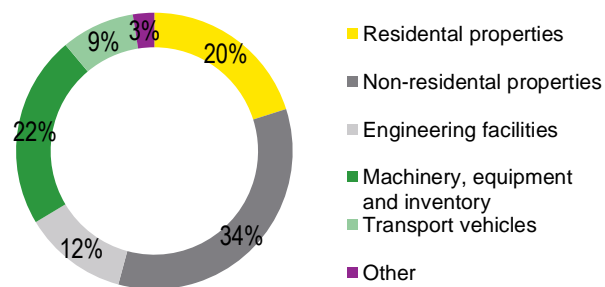
10k sq.m

Total quality office stock (speculative supply excluding owner-occupied schemes, GLA)

156 UAH

Average rental rate/ sq.m/ month

#### The structure of capital investments in 2016 in Ivano-Frankivsk



#### Key supply facts in office market

- ▶ According to local real estate agencies the total office supply (speculative) in Ivano-Frankivsk is around 10 k sq. m;
- ▶ There are a few small office properties, which were designed as business centers;
- ▶ Typical leasable areas (the ones most demanded) provided in office centers vary between 20-150 sq. m;
- ▶ The vacancy rate of office properties is between 5-10%;
- ▶ Average rental rates are between 120-200 UAH, net of OPEX and utility payments;
- ▶ The rest of office supply is presented as renovated premises on the ground floor of residential properties, located within the city center boundaries, thus often without appropriate infrastructure.

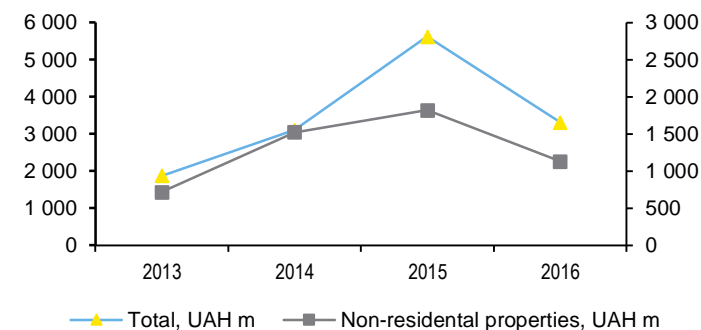
#### Key trends in office market

- ▶ Currently, there are no professional business centers in Ivano-Frankivsk;
- ▶ 3 new office properties were launched in 2017
- ▶ Most of the new properties have both retail and office premises;
- ▶ There are a couple of modern office projects in the pipeline, scheduled to be delivered in the medium term;
- ▶ Office developers are looking for office development projects on built-to-suit basis;
- ▶ Taking into account the relatively steady economic fundamentals in Ivano-Frankivsk, the office market is projected to expand in short and medium term.

#### Capital investments by type of assets

- ▶ In 2016, capital investments in non-residential properties in Ivano-Frankivsk were 1.13 UAH billion, which is lower than in previous year;
- ▶ Nevertheless, the share of non-residential properties in total capital investment in 2016 is 34.1%, which higher than 2015 figure (32.3%);
- ▶ Overall economic setting in the region implies that companies are becoming more confident to invest in commercial real estate assets.

#### Capital investments in Ivano-Frankivsk



## 6. Market Analysis

### Office Market

#### Target audience

- ▶ During the last couple of years, the demand for office premises has increased in Western part of Ukraine, including Ivano-Frankivsk;
- ▶ Both Ivano-Frankivsk and Lviv have positive reputation by foreign investors, due to high number of young graduates and lower risk perception of Western Ukraine;
- ▶ The highest proportion of demand for office premises in Ivano-Frankivsk comes from FMCG sector and IT outsourcing;
- ▶ The key drivers of demand for high quality office premises will be companies tangent to IT sector: some members of Lviv IT cluster have already expressed interest to expand their offices in Ivano-Frankivsk

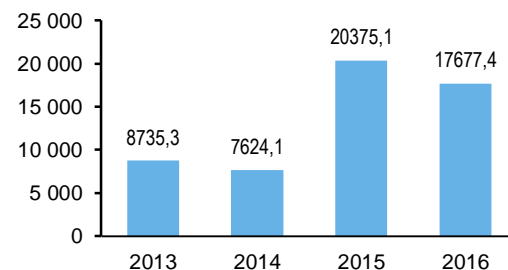
#### Office segment development

- ▶ Currently, there are no professional business centers in Ivano-Frankivsk;
- ▶ Taking into consideration increase in IT sector activity in the city, to accommodate the growth there will be demand for new, well-planned office premises with an appropriate infrastructure, communications, energy efficiency, conference and events functions etc.

#### IT sector in Ivano-Frankivsk

- ▶ Similarly to Lviv IT cluster experience, an IT cluster was formed in Ivano-Frankivsk, to promote development of IT industry in the city;
- ▶ Both SoftServe and ELEKS, the two major IT companies (both are ranked in TOP 100 IT outsourcing companies in the world) have already established subsidiaries in Ivano-Frankivsk, and they are planning to expand their presence even further;
- ▶ In terms of financial results, IT sector is one of the most stable segments in the city, showing positive EBT figures for the last five years;
- ▶ Together with increased demand for good quality offices, employees in IT sector will require appropriate social infrastructure: cafes and food courts, fitness centers, transport links, accommodation, education facilities etc.

#### Earnings before tax of IT companies, UAH k



Source: Statistical Service in Ivano-Frankivsk region

#### IT in region

900+

Developers in Ivano-Frankivsk

1,600+

Expert graduates every year

197

Private companies operating in IT sector

Source: Ivano-Frankivsk IT cluster, Statistical Service in Ivano-Frankivsk region

## 6. Market Analysis

### Hotel Market

#### Current supply in hotel market

- ▶ In the recent years the supply in Ivano-Frankivsk hotel market has increased from 16 hotels in 2013 to 25 hotels at the beginning of 2017;
- ▶ According to statistical data, provided by State Statistical Service in Ivano-Frankivsk region, there are 25 hotels in Ivano-Frankivsk with the cumulative stock of 671 keys in total;
- ▶ 6 hotels are positioned in midscale (3\*) category according to the official statistics, and the remaining supply is presented by budget hotels that are not categorized.

#### Characteristics of current supply

- ▶ Most of the hotels offer breakfast, parking places and have on-site restaurant. In contrast, only 8 hotels have conference function on site and only 1 hotel has SPA option available;
- ▶ In terms of the size, 3 hotels in Ivano-Frankivsk have more than 30 rooms, and the rest of the supply is presented by small hotels with 8 to 25 keys;
- ▶ Geographically, most of the hotels are scattered around the city and within the city center, with some hotels located along H09 and H18 ring road.

#### Hotel market in Ivano-Frankivsk

# 25 hotels

Only **three** of them with the roomstock over 30 keys

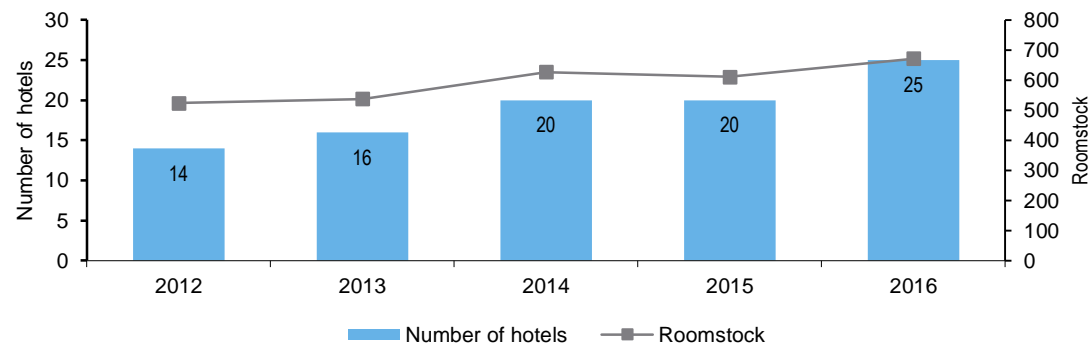
# 671 keys

Total roomstock in Ivano-Frankivsk hotel market

# €255-880

UAH per night, rack rates per standard double rooms

#### Number of hotels and total roomstock in Ivano-Frankivsk



Source: Statistical Service in Ivano-Frankivsk region

## 6. Market Analysis

### Hotel Market

#### Current demand in hotel market

- It is seen that both guest flow and total number of nights spend in Ivano-Frankivsk temporary accommodation is increasing since 2014;
- In 2016 the number of nights spent and the number of guests in Ivano-Frankivsk hotels and hostels increased by 27.5% and 17.1% y-o-y respectively;
- Based on 2016 data, 90% of hotel guests were Ukrainian citizens and only 10% were foreign citizens;
- It has to be mentioned that Ivano-Frankivsk is located 100 km away from Bukovel (the biggest European-class ski resort in Ukraine), and since there is a significant number of transit tourists coming from other parts of the country;
- Taking into account steady increase in guest flow to Ivano-Frankivsk, the demand for good-quality accommodation is expected to increase too;
- Compared to other similar cities, Ivano-Frankivsk has higher number of hotels than similar cities (except for Lviv) due to tourist potential of the city.
- Taking into account steady increase in guest flow to Ivano-Frankivsk coupled with absence of quality properties in the local market, the demand for good-quality accommodation is not satisfied.

#### Demand in Ivano-Frankivsk hotel market

**72,651 guests**

Stayed in Ivano-Frankivsk hotels in 2016

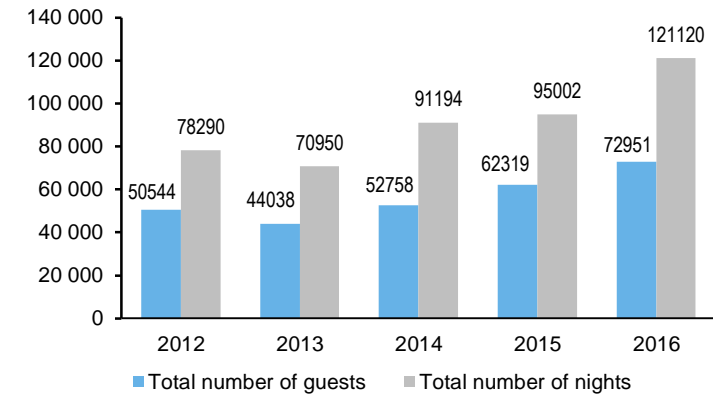
**In total guests spent 120,820 nights in Ivano-Frankivsk hotels in 2016**

#### Average occupancy

**55%**

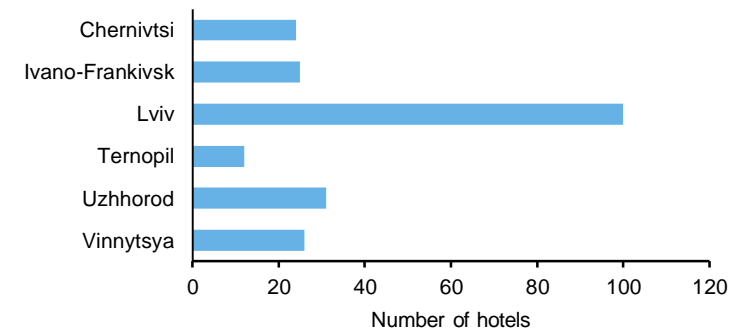
Varying between 40%-70% depending on property size, location and positioning

#### Guest flow and number of nights spent in Ivano-Frankivsk hotels and hostels



Source: Statistical Service in Ivano-Frankivsk region

#### Number of hotels in similar cities





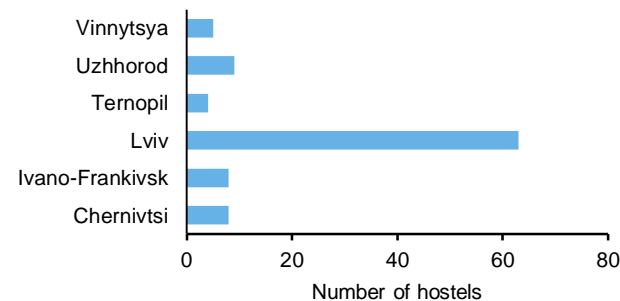
## 6. Market Analysis

### Hotel Market

#### Current supply in hostel market

- ▶ Currently, there are 8 hostels in Ivano-Frankivsk, but only 1-2 of them can be qualified as hostel;
- ▶ According to statistical data, provided by Statistical Service in Ivano-Frankivsk region, there is only 1 hostel with 8 rooms and 20 beds available;
- ▶ Most of the hostels are presented in the form of residential apartments, with additional beds, no specific refurbishment was made, therefore the quality of accommodation is relatively low;
- ▶ 6 out of 8 hostels have up to three rooms, and most of them do not offer breakfast, laundry service, towels, etc.;
- ▶ Overall, current supply in the hostel market is nearly non-existent, and there is a market opportunity for new quality properties to occupy the respective market niche;

#### Number of hostels in similar cities



Source: booking.com

#### Hostel market in regional cities

- ▶ In comparison with similar neighboring cities, Ivano-Frankivsk has one of the lowest number of hostels: there are 63 hostels in Lviv, 9 hostels in Uzhhorod and 8 hostels in Chernivtsi;
- ▶ Furthermore, Ivano-Frankivsk is located 100 km away from Bukovel (the biggest European-class ski resort in Ukraine), consequently there is a high number of transit tourists which might spend 1-2 days in Ivano-Frankivsk and visit local tourist attractions, thus there is demand for accommodation;
- ▶ In terms of size and population, Ivano-Frankivsk is similar to Uzhhorod and Chernivtsi, and taking into account high number of transit tourists to Bukovel, hostel supply is relatively weak .

#### Hostel market in Ivano-Frankivsk

## 8 hostels

Only two of them have more than 3 rooms

## 146 beds

Total number of beds in Ivano-Frankivsk hostels

## 140 UAH

Average rate in 6-bed dormitory room

## 6. Market Analysis

### Market analysis: SWOT analysis

#### Strengths

- ▶ Limited new supply in Ivano-Frankivsk office market and low pipelined supply in short-term perspective
- ▶ Low supply of modern quality business centers
- ▶ Limited number of quality hotels in midscale segment and hostels
- ▶ Positive trend in number of hotel and hostel visitors
- ▶ Increasing number of events and festivals in Ivano-Frankivsk
- ▶ Graduated recovery of macroeconomic indicators in Ukraine
- ▶ Similar projects worldwide have proven to be successful

#### Opportunities

- ▶ The opportunity to achieve high performance indicators provided a mixed-use innovative Project and great location characteristics
- ▶ Potential synergy advantages in multifunctional complex with various functions on site
- ▶ Growing IT sector in Ivano-Frankivsk is expected to generate additional demand
- ▶ In short-term perspective pipelined competition in office, hotel and hostel markets remains low

#### Weaknesses

- ▶ Low average salary and decreasing number of full-time employees in Ivano-Frankivsk
- ▶ Low rental rates in office segment in Ivano-Frankivsk compared to other major cities
- ▶ Limited market capacity to absorb new supply in commercial real estate segment

#### Threats

- ▶ Macroeconomic fluctuations that may lead to decrease in demand trends and performance indicators
- ▶ Possible introduction of tighter regulations (such as increase in tax rates) that might slow down the development of IT sector businesses in Ukraine
- ▶ Continuing labor migration of recent graduates, professionals and skilled workers to larger cities in Ukraine and abroad
- ▶ Strengthening of competition in the segment with the entry of new hotels and business centers into the market in long-term

## 7. Financial Analysis

### Key assumptions and limitations

#### Space for rent: performance projections

##### Occupancy

The assumptions regarding the achievable occupancy and its growth dynamics over time take into account current market setting and projections as to its further performance, the Project implementation timeline, scale of each function within the Project and expected demand dynamics in particular segment. We have also accounted for preliminary expression of interest from potential tenants as provided by the Client in the course of our analysis.

**Rental rates** According to the Project concept, the space for rent will host two types of tenants (so-called function): commercial and social. The latter will benefit from lower rental rates, though will contribute to overall tenant-mix and are expected to play an important role in the Project ecosystem. Further, we assume the rental and OPEX reimbursement rates will continue to demonstrate a moderate growth during the forecast period (in line with the real GDP growth).

**OPEX reimbursement** Current OPEX reimbursement rates observed in commercial real estate with similar quality and location characteristics amount to \$1.5-2/sq. m/month. For our analysis we anticipated that OPEX reimbursement rate in base year (2018) comprises \$1.75/sq. m/month.

The assumptions as to the occupancy level growth dynamics and base rental rates are provided in the table below.

#### We have considered two development scenarios in our analysis:

1. Renovation of existing factory buildings and new construction
2. Renovation of existing factory buildings only

#### The financial analysis outlined further in this section is subject to the following assumptions and limitations:

- ✓ Project development volume (total GBA) has been provided by the Client. We have estimated leasable areas (GLA) of certain functions based on our expertise in the commercial real estate segment.
- ✓ For the purpose of investment analysis, all the estimates of operating income and expenses, development budget, proceeds from sale are stated net of VAT.
- ✓ The development budget includes costs for the acquisition of the Plant. The development budget and estimated acquisition costs were provided to us by the Client.
- ✓ The assumptions used in the model (achievable rents, average daily rates, vacancies, OPEX, etc. as well as forecasted trends) are based on the Client's data and available market data, macroeconomic forecasts by international agencies, and specialist market knowledge.
- ✓ The occupancy dynamics projections reflect the expected results of the Project on the competitive market, subject to development by a reputable developer and efficient marketing.
- ✓ According to the information provided by the Client, CAPEX on social
- ✓ function premises (\$2,270,000) are to be covered by grants.

#### Main assumptions of the model are as follows:

- ▶ Total forecast period – 2018-2025 (8 years)
- ▶ Forecast period start date – January 1, 2018
- ▶ Forecast step – 1 year
- ▶ Pre-construction/Construction period:
- ▶ Scenario 1 - 2018-2023 (6 years)
- ▶ Scenario 2 – 2018-2022 (5 years)
- ▶ Currency of the model – US dollar

# 7. Financial Analysis

## Space for rent: performance projections

### Occupancy forecast: space for rent

Function	Building ID	Use	GLA, sq.m	2018	2019	2020	2021	2022	2023	2024	2025
Promprylad Pilot	B	Mixed use	1,427.30	97%	97%	97%	0%	0%	0%	0%	0%
Fab-Lab	C	Create	783.85	0%	97%	97%	0%	50%	97%	97%	97%
Brewery	B	Eat	901.35	0%	0%	97%	97%	97%	97%	97%	97%
Office (1st floor)	B	Work	697.51	0%	0%	50%	70%	97%	97%	97%	97%
Office (2nd floor)	B	Work	1,794	0%	70%	97%	97%	97%	97%	97%	97%
Office (4th floor)	B	Work	1,837	0%	70%	97%	97%	97%	97%	97%	97%
Mezzanine office (2nd floor)	B	Work	404.46	0%	0%	50%	70%	97%	97%	97%	97%
Mezzanine office (4th floor)	B	Work	404.46	0%	0%	50%	70%	97%	97%	97%	97%
Children's center	B	Play	433.59	0%	0%	97%	97%	97%	97%	97%	97%
Art center	B	Play	766.46	0%	0%	97%	97%	97%	97%	97%	97%
Promprylad Pilot (phase 2)	B	Work	2,156.52	0%	0%	0%	50%	70%	97%	97%	97%
Promprylad Pilot (phase 2) terrace	B	Work	393.68	0%	50%	58%	58%	58%	58%	58%	58%
Street retail	A	Shop	1,208.62	0%	0%	0%	0%	0%	70%	97%	97%
Market	A	Shop	1,348.94	0%	0%	0%	0%	0%	60%	80%	97%
Fitness center	A	Play	1,267.00	0%	0%	0%	0%	0%	97%	97%	97%
Office	A	Work	2,057.31	0%	0%	0%	0%	0%	50%	70%	97%
Restaurant	A	Eat	795.53	0%	0%	0%	0%	0%	97%	97%	97%
Food hub	A	Create	472.75	0%	0%	0%	0%	0%	97%	97%	97%
Green beds	A	Create	661.35	0%	0%	0%	0%	0%	97%	97%	97%
Terrace	A	Eat	633.23	0%	0%	0%	0%	0%	58%	58%	58%



# 7. Financial Analysis

## Space for rent: performance projections

### Occupancy forecast: space for rent (continued)

Function	Building ID	Use	GLA/units	2018	2019	2020	2021	2022	2023	2024	2025
Visitor center	C	Play	190.62	0%	0%	0%	0%	97%	97%	97%	97%
Recycling center	C	Create	111.33	0%	0%	0%	0%	97%	97%	97%	97%
Bicycle Hub	C	Create	56.66	0%	0%	0%	0%	97%	97%	97%	97%
Kysla Brewery	C	Eat	512.46	0%	0%	0%	0%	97%	97%	97%	97%
R&D Center	C	Create	1,279.49	0%	0%	0%	0%	97%	97%	97%	97%
Office	C	Work	2,695.53	0%	0%	0%	0%	50%	70%	97%	97%
Cinema	D_2	Play	1,575.00	0%	0%	0%	0%	0%	97%	97%	97%
Office	E	Work	1,585.48	0%	0%	0%	0%	0%	0%	97%	97%
Office	F	Work	1,566.91	0%	0%	0%	0%	0%	0%	97%	97%

## 7. Financial Analysis

### Space for rent: performance projections

#### Rental rates in base year (2018)

Building	Building Id	Function	Type of function	Base rate, US\$/sq. m/ month, tripple net
Street retail	A	Shop	Commercial	15
Market	A	Shop	Commercial	10
Fitness center	A	Play	Commercial	6
Office	A	Work	Commercial	8
Restaurant	A	Eat	Commercial	10
Food hub	A	Create	Social	6
Green beds	A	Create	Commercial	6
Terrace	A	Eat	Social	2
Promprylad Pilot	B	Mixed use	Commercial	2
Brewery	B	Eat	Commercial	10
Office (1st floor)	B	Work	Commercial	8
Office (2nd floor)	B	Work	Commercial	1.4
Office (4th floor)	B	Work	Commercial	3.6
Mezzanine office (2nd floor)	B	Work	Commercial	8
Mezzanine office (4th floor)	B	Work	Commercial	8
Children's center	B	Play	Commercial	5
Art center	B	Play	Social	2
Promprylad Pilot (phase 2)	B	Work	Commercial	5
Promprylad Pilot (phase 2) terrace	B	Work	Commercial	2
Fab-Lab	C	Create	Social	2
Visitor center	C	Play	Social	5

Source: Client's and market data

Building	Building Id	Function	Type of function	Base rate, US\$/sq. m/ month, tripple net
Promprylad Museum	C	Play	Social	-
Recycling center	C	Create	Social	5
Bicycle Hub	C	Create	Commercial	10
Kysla Brewery	C	Eat	Commercial	10
R&D Center	C	Create	Social	6
Office	C	Work	Commercial	8
Cinema	D_2	Play	Commercial	6
Office	E	Work	Commercial	13
Office	F	Work	Commercial	13

Source: Client's and market data

# 7. Financial Analysis

## Concert Hall and Exhibition Hall revenue projections

### Concert Hall

Concert hall revenue was calculated under the Client’s assumption that it is going to be leased out to a professional operator. The fixed rental rate is estimated at \$10,000 per month.

### Exhibition Hall

Exhibition hall revenue was estimated based on the Client’s assumption of 3 events per month in the first operating year with graduate increase up to 7 events per month. The rental rate per event is assumed at \$2,000.

### Concert Hall and Exhibition Hall revenue calculation

		2018	2019	2020	2021	2022	2023	2024	2025	2026
Concert Hall										
Occupancy	%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	100.00%	100.00%	0.00%
Rental rate	US\$/per month	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Revenue	US\$	-	-	-	-	-	120,000	120,000	120,000	-
Exhibition hall										
Occupancy	%	0.00%	0.00%	0.00%	0.00%	42.86%	71.43%	100.00%	100.00%	0.00%
Number of events per month		-	-	-	-	3	5	7	7	-
Rental rate	US\$/per event	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Revenue	US\$	-	-	-	-	72,000	120,000	168,000	168,000	-

Source: Client's data

## 7. Financial Analysis

### Space for rent: net operating income projections

#### Net operating income projections

Net operating income for commercial properties is equal to the total income generated by a specific property, less operating expenses, property tax and land payments. Total operating income includes both rental income and other income from the operating activity of the property.

To receive net operating income, operating expenses, property and land payments are deducted from the total operating income. Operating expenses include such costs as repair and maintenance of the property, cleaning, insurance and reserve for replacement (capital reserve) before interest and income tax.

We have assumed that all uses within the Project (with the exception of hotel and hostel use) will be managed by one operator.

#### Office and retail use net operating income calculation

##### Potential gross income (PGI).

The source of income from the retail and office use operation is renting the space. The potential gross income from such types of property is determined based on the assumption of full use of all rented space without considering losses from non-payment of rent, reimbursement of operating and other expenses.

##### Effective operating income.

The effective operating income is determined as a difference between the potential gross income and vacancy and other losses. Reimbursable operating expenses. According to market practice tenants are to reimburse operating expenses (OPEX), which usually include the following items:

- ▶ Maintenance expenses;
- ▶ Utilities;

- Maintenance of the property and equipment;
- Current repair;
- Total area cleaning;
- Removal of snow and refuse;
- Management services;
- Security;
- Other services related to the operation of the property.

##### Total operating income.

The gross operating income reflects the amount of all operating incomes from the real estate property operation, including the operating (maintenance) expenses reimbursement by tenants.

##### Actual operating expenses.

We assume that operating expenses will be paid by the tenants. However, the operating expenses for vacant premises are incurred and paid by the landlord. In addition to that, as instructed by the Client we factored the following expenses related to the overall Project management and implementation into the model:

- ▶ Project marketing:
  - Investment attraction (1% of investment value)
  - Tenants attraction (up to 5% of project revenue during the first year)
  - Project marketing team (fixed amount of \$12,000 p/a)
- ▶ Administrative expenses (fixed amount of \$30,000 p/a)
- ▶ Contingency expenses (3% of operating expenses).

##### Reserve for replacement.

The amount allocated for replacement of the office and shopping center equipment, as well as capital repairs and maintenance is assumed to comprise 2% of potential gross rental income.



## 7. Financial Analysis

### Hotel cash flow forecast

We have analyzed the average performance indicators in existing midscale hotels in comparable locations. In our analysis we assume that occupancy in projected hotel will be slightly lower than average market occupancy in first operating years. It is expected that the property will need three years to win its market share and will reach the stabilized occupancy of 60% in 2026.

In the base year (2018) the achievable ADR for the proposed hotel was estimated at \$30. In line with the projected Ukrainian economic growth, we assumed that upon delivery upon of the property in 2023 the achievable ADR will comprise \$32.3.

Revenues of a typical operating hotel are formed from the following sources: Rooms; Food & beverages sold; Other Operated Departments. Rooms revenues were calculated under assumption that there are 44 guestrooms available. We estimated occupancy levels and average daily room rates for the first 3 years of operation (assumptions are described above).

Rooms expenses are associated with the sale and upkeep of rooms and other public spaces of the Hotel. The major cost items (under the international cost classification) are salaries, wages and benefits of employees directly involved in room servicing. The share of such expenses amounts to 15% of the room revenue.

The F&B revenue usually consists of the Hotel's restaurant and bar revenues as well as banquet revenues and room breakfasts. Food and beverage revenues were estimated to compose ca. 30% of total revenue.

## 7. Financial Analysis

### Hotel operating statement

#### Hotel operating statement

Item	2023		2024		2025	
Revenue						
Rooms	\$ 233,554.62	68.0%	\$ 264,116.79	68.0%	\$ 294,077.84	68.0%
Food&Beverage	\$ 103,038.80	30.0%	\$ 116,522.11	30.0%	\$ 129,740.22	30.0%
Other operated departments	\$ 6,869.25	2.0%	\$ 7,768.14	2.0%	\$ 8,649.35	2.0%
Total revenue	\$ 343,462.67	100.0%	\$ 388,407.04	100.0%	\$ 432,467.41	100.0%
Departmental expenses						
Rooms	\$ 35,033.19	15.0%	\$ 39,617.52	15.0%	\$ 44,111.68	15.0%
Food&Beverage	\$ 51,519.40	50.0%	\$ 58,261.06	50.0%	\$ 64,870.11	50.0%
Other operated departments	\$ 3,434.63	50.0%	\$ 3,884.07	50.0%	\$ 4,324.67	50.0%
Total departmental expenses	\$ 89,987.22	26.2%	\$ 101,762.64	26.2%	\$ 113,306.46	26.2%
Total departmental income	\$ 253,475.45	73.8%	\$ 286,644.39	73.8%	\$ 319,160.95	73.8%
Undistributed operating expenses						
Administrative and general	\$ 41,215.52	12.0%	\$ 38,840.70	10.0%	\$ 43,246.74	10.0%
Sales and marketing	\$ 20,607.76	6.0%	\$ 17,478.32	5.0%	\$ 19,461.03	5.0%
Property operation and maintenance	\$ 13,738.51	4.0%	\$ 15,536.28	4.0%	\$ 17,298.70	4.0%
Utilities	\$ 30,911.64	9.0%	\$ 34,956.63	9.0%	\$ 38,922.07	9.0%
Total undistributed expenses	\$ 106,473.43	31.0%	\$ 106,811.94	27.5%	\$ 118,928.54	27.5%
Gross operating profit (GOP)	\$ 147,002.02	42.8%	\$ 179,832.46	46.3%	\$ 200,232.41	46.3%
Income before fixed charges	\$ 147,002.02	42.8%	\$ 179,832.46	46.3%	\$ 200,232.41	46.3%

## 7. Financial Analysis

### Hotel operating statement

#### Hotel operating statement (continued)

Item	2023			2024			2025		
Fixed charges									
Insurance	\$	1,373.85	0.4%	\$	1,553.63	0.4%	\$	1,729.87	0.4%
Property tax	\$	2,925.69	0.9%	\$	3,071.97	0.8%	\$	3,225.57	0.8%
Total fixed charges	\$	4,299.54	1.3%	\$	4,625.60	1.2%	\$	4,955.44	1.2%
Net operating income/EBITDA	\$	142,702.49	41.6%	\$	175,206.86	45.1%	\$	195,276.97	45.2%
Replacement reserves									
Reserve for replacement (FF&E)	\$	10,303.88	3.0%	\$	11,652.21	3.0%	\$	12,974.02	3.0%
Reserve for capital expenditure	\$	10,303.88	3.0%	\$	11,652.21	3.0%	\$	12,974.02	3.0%
Total replacement reserves	\$	20,607.76	6.0%	\$	23,304.42	6.0%	\$	25,948.04	6.0%
Net operating income	\$	122,094.73	35.6%	\$	151,902.44	39.1%	\$	169,328.93	39.2%

## 7. Financial Analysis

### Hostel cash flow forecast

We have analyzed the average performance indicators in existing quality hostels in comparable regional cities. Given the scale of the property (16 private rooms, 144 beds in dorms), in our analysis we assume that occupancy in dorms will be slightly lower than in private rooms. Similarly to the hotel, it is expected that the hostel will need three years to reach the stabilized occupancy in 2025.

In the base year (2018) the achievable ADR for the private rooms was estimated at \$25, the ABR – at \$8. In line with the projected Ukrainian economic growth, we assumed that upon delivery upon of the property in 2022 the achievable daily rate in private rooms will comprise \$26.5 and the bed rate in dorms will amount to \$8.5.

#### Hostel cash flow forecast

For the purpose of estimating income and expenses levels at the proposed Hostel we analyzed the available data for the hostels comparable to the property.

Revenues of a typical operating hostel are formed from the following sources:

- Private rooms and dorms;
- Food & beverages sold;
- Other Operated Departments

Rooms revenues were calculated under assumption that there are 16 private rooms and 144 beds in dorms available. We estimated occupancy levels and average daily room and bed rates for the first 4 years of operation (assumptions are described above).

Rooms expenses are associated with the sale and upkeep of rooms and other public spaces of the Hostel. The major cost items (under the international cost classification) are salaries, wages and benefits of employees directly involved in room servicing. The share of such expenses amounts to 15% of the room revenue.

The F&B revenue usually consists of the Hostel’s bar revenues as well as breakfasts.

Food and beverage revenues were estimated to compose ca. 15% of total revenue.

#### Hostel ADR, ABR and occupancy projections

Item	2022	2023	2024	2025
Private rooms				
Average daily rate (ADR)	\$26.53	\$26.93	\$27.33	\$27.74
Occupancy	40.0%	50.0%	60.0%	70.0%
Dorms				
Average bed rate (ABR)	\$8.49	\$8.62	\$8.75	\$8.88
Bed occupancy	30.0%	40.0%	45.0%	50.0%

## 7. Financial Analysis

### Hostel operating statement

#### Hostel operating statement

Item	2022		2023		2024		2025		
Revenue									
Lodging	\$	195,860.68	83.0%	\$	259,819.68	83.0%	\$	346,736.40	83.0%
Food&Beverage	\$	35,396.51	15.0%	\$	46,955.36	15.0%	\$	62,663.21	15.0%
Other operated departments	\$	4,719.53	2.0%	\$	6,260.72	2.0%	\$	8,355.09	2.0%
Total revenue	\$	235,976.72	100.0%	\$	313,035.76	100.0%	\$	417,754.70	100%
Departmental expenses									
Lodging	\$	29,379.10	15.0%	\$	38,972.95	15.0%	\$	52,010.46	15.0%
Food&Beverage	\$	17,698.25	50.0%	\$	23,477.68	50.0%	\$	31,331.60	50.0%
Other operated departments	\$	2,359.77	50.0%	\$	3,130.36	50.0%	\$	4,177.55	50.0%
Total departmental expenses	\$	49,437.12	21.0%	\$	65,580.99	21.0%	\$	87,519.61	21.0%
Total departmental income	\$	186,539.60	79.1%	\$	247,454.77	79.1%	\$	330,235.09	79.1%
Undistributed operating expenses									
Administrative and general	\$	35,396.51	15.0%	\$	37,564.29	12.0%	\$	50,130.56	12.0%
Sales and marketing	\$	18,878.14	8.0%	\$	18,782.15	6.0%	\$	25,065.28	6.0%
Property operation and maintenance	\$	9,439.07	4.0%	\$	12,521.43	4.0%	\$	16,710.19	4.0%
Utilities	\$	21,237.90	9.0%	\$	28,173.22	9.0%	\$	37,597.92	9.0%
Total undistributed expenses	\$	84,951.62	36.0%	\$	97,041.09	31.0%	\$	129,503.96	31.0%
Gross operating profit (GOP)	\$	101,587.98	43.1%	\$	150,413.68	48.1%	\$	200,731.14	48.1%
Income before fixed charges	\$	101,587.98	43.1%	\$	150,413.68	48.1%	\$	200,731.14	48.1%



## 7. Financial Analysis

### Hostel operating statement

#### Hostel operating statement (continued)

Item	2022		2023		2024		2025		
Fixed charges									
Insurance	\$	943.91	0.4%	\$	1,252.14	0.4%	\$	1,671.02	0.4%
Property tax	\$	3,600.85	1.5%	\$	3,744.98	1.2%	\$	4,128.84	1.0%
Total fixed charges	\$	4,544.76	1.9%	\$	4,997.12	1.6%	\$	5,394.85	1.5%
Net operating income/EBITDA	\$	97,043.22	41.1%	\$	145,416.56	46.5%	\$	170,302.69	46.6%
Replacement reserves									
Reserve for replacement (FF&E)	\$	7,079.30	3.0%	\$	9,391.07	3.0%	\$	10,969.67	3.0%
Reserve for capital expenditure	\$	7,079.30	3.0%	\$	9,391.07	3.0%	\$	10,969.67	3.0%
Total replacement reserves	\$	14,158.60	6.0%	\$	18,782.15	6.0%	\$	21,939.34	6.0%
Net operating income	\$	82,884.62	35.1%	\$	126,634.42	40.5%	\$	148,363.35	40.6%

## 7. Financial Analysis

### Project financial efficiency indicators

**Net Operating Income for  
post-forecast operational year:**

**\$3.2 million**

**Scenario 1**

**\$2.7 million**

**Scenario 2**

**Terminal value of the Project:**

**\$30.2 million**

**Scenario 1**

**\$25.3 million**

**Scenario 2**

The Property value at the end  
of forecast period

**Project NPV**

**\$1.7 million**

**Scenario 1**

**\$1.5 million**

**Scenario 2**

Net Present Value of the Project as of start  
of the investment period (2018)

**Project IRR:**

**\$16.7%**

**Scenario 1**

**\$16.7%**

**Scenario 2**

**Payback Period:**

**12.1 Y**

**Scenario 1**

**11.7 Y**

**Scenario 2**

#### Terminal value of the Project

To determine attractiveness of an investment, project revenues are compared with expenses. In addition to revenues generated by the operation of the Project, terminal value of the Project has to be determined (value at which this Project could be potentially sold in the open market).

In order to determine all the revenues and values of the assets we determined potential value of the Project at the end of forecast period. This value at the end of forecast period was calculated by direct capitalization method as a correlation of a Net Operating Income for post-forecast operational year to terminal capitalization rate. The capitalization rate was determined at the level of 12%. Consequently terminal value of the future Project (if the property would be sold at the end of forecast period) was estimated at \$30.2 million for Scenario 1 and \$25.3 million for Scenario 2. Brokerage fee for sale, according to the current market practice, was assumed at 0.5% of the asset value considering the transaction size.

It has to be noted that results of those calculations do not depend on the fact of sale of the asset: this method encompasses value of the Project at the end of the forecast period. The two components of this method include revenues generated by operations of the Project and revenues generated by the sale of this asset at the market price in the end of the forecast period.

To assess economic efficiency of the Project we estimated revenues and expenses in each year of the forecast period (before applying the income tax). Based on the cash flow estimates we calculated Net Present Value of the Project with a separate analysis of investment expenses and revenues. The present value of the cash flows (including investment expenses and forecasted operating revenues) is determined by applying the discount rate.

#### Discount rates calculations

The size of the discount rate reflects the value of money in time which is determined by taking into account potential risks associated with transactions on the real estate market, inflation and possibility of alternative options of investments. The discount rate used in the financial models of investment projects for the conversion of future revenues and expenses to the present value is the expected rate of return on invested capital.

When determining the discount rate it has to be taken into account that investor when buying a property, invests his money in return for the profit in the future. By investing in real estate, investor risks to get no profit in the future and therefore has the right to demand the appropriate risk premium. This risk premium is expressed as an additional interest to the rate of return if he would invest differently (e.g. deposit money in the bank or buy reliable bonds).

This rate should be enough to motivate an investor to purchase rights to the future earnings flows with regard to alternative options of investments and risk associated with the investment into the specified real estate property.

#### Discounted cash flow for Operating and Investment periods

Positive cash flows which arise after completion of construction and launching the Project are discounted to the beginning of investment period using two rates: for investment period and for operating period.

The discount rate for investment period was determined at 17.28% and applied to our analysis to account for the risks related with investing in real estate segment. During the operating period the discount rate of 14.78% was applied. This rate reflects the level of risks associated with the operating activities of the Project and positioning of the property. Net Present Value as of the start of the investment period was calculated at \$1.7 million for Scenario 1 and \$1.5 for Scenario 2.

The Internal Rate of Return (IRR) – is the discount rate at which current value of future cash flows equals to zero. Internal rate of return reflects profitability of future investments. For investors with required rate of return which is less than or equal IRR of the project, the proposed project is attractive for investment. Internal Rate of Return of the Project comprise around 16.7% for both scenarios. According to our analysis, in case of successful delivery of the Project the payback period is 12.1 years for Scenario 1 and 11.7 years for Scenario 2. Cash flow calculations, including operating statement, estimated construction costs and NPV calculations as of the start of investment period are presented in MS Excel file accompanying this Report.

## 7. Financial Analysis

### Sensitivity analysis: Scenario 1

#### Construction budget sensitivity analysis

Construction budget, net of VAT	% change	NPV	IRR
\$19,211,634	10%	\$711,078	14.4%
\$18,338,378	5%	\$1,222,762	15.5%
\$17,465,122	0%	\$1,710,080	16.7%
\$16,591,866	-5%	\$2,197,398	17.8%
\$15,718,610	-10%	\$2,660,350	19.0%

#### Capitalization rate sensitivity analysis

Capitalization rate	NPV
10.0%	\$3,630,205
11.0%	\$2,582,864
12.0%	\$1,710,080
13.0%	\$971,570
14.0%	\$338,562

#### Rental rates and operating expenses sensitivity analysis

Rental rates and operating expenses growth index	NPV	IRR
-1.5%	(\$1,005,681)	10.7%
0%	\$285,918	13.7%
1.5%	\$1,710,080	16.7%
3.0%	\$3,278,589	19.7%
4.5%	\$5,004,103	22.7%

The sensitivity analysis was carried out over the input data vulnerable to market fluctuations and which may notably affect the final results of the financial analysis.

The key factors of the sensitivity analysis are:

- Capitalization rate
- Rental rates and operating expenses growth index
- Construction budget
- Discount rates for investment and operating period

The tables below demonstrate the data that has been changed in the sensitivity analysis and its impact on the final results (based on Scenario 1 inputs).

#### Discount rate for investment period sensitivity analysis

Discount rate for investment period	NPV
15.3%	\$1,118,348
16.3%	\$1,420,238
17.3%	\$1,710,080
18.3%	\$1,988,476
19.3%	\$2,255,997

#### Discount rate for operating period sensitivity analysis

Discount rate for operating period	NPV
12.8%	\$3,530,857
13.8%	\$2,586,796
14.8%	\$1,710,080
15.8%	\$895,375
16.8%	\$137,812

## 7. Financial Analysis

### Sensitivity analysis: Scenario 2

Construction budget sensitivity analysis

Construction budget, net of VAT	% change	NPV	IRR
\$14,747,545	10%	\$524,681	14.8%
\$14,077,202	5%	\$1,036,365	15.7%
\$13,406,859	0%	\$1,523,683	16.7%
\$12,736,516	-5%	\$2,011,001	17.7%
\$12,066,173	-10%	\$2,473,953	18.7%

Capitalization rate sensitivity analysis

Capitalization rate	NPV
10.0%	\$3,129,185
11.0%	\$2,253,457
12.0%	\$1,523,683
13.0%	\$906,182
14.0%	\$376,896

The following tables demonstrate the data that has been changed in the sensitivity analysis and its impact on the final results (based on Scenario 2 inputs).

Discount rate for investment period sensitivity analysis

Discount rate for investment period	NPV
15.3%	\$1,014,693
16.3%	\$1,274,228
17.3%	\$1,523,683
18.3%	\$1,763,555
19.3%	\$1,994,311

Discount rate for operating period sensitivity analysis

Discount rate for operating period	NPV
12.8%	\$3,141,058
13.8%	\$2,302,862
14.8%	\$1,523,683
15.8%	\$798,889
16.8%	\$124,249

Rental rates and operating expenses sensitivity analysis

Rental rates and operating expenses growth index	NPV	IRR
-1.5%	(\$761,469)	11.2%
0%	\$325,890	13.9%
1.5%	\$1,523,683	16.7%
3.0%	\$2,841,674	19.5%
4.5%	\$4,290,347	22.2%

## 8. Strategic Analysis

### SWOT analysis

#### Strengths

- ▶ Similar revitalization projects have proven to be successful worldwide;
- ▶ Strong group of strategic partners with expertise in different fields;
- ▶ Large area of the site can fit mix of different functions which may attract wider audience;
- ▶ Location in the central part of the city with good transport access and façade position is a certain benefit to make the Project more and attract more visitors and corporate clients;
- ▶ Low competition in good quality hotel and hostel segments;
- ▶ Absence of strong competition in co-working market segment;
- ▶ Successful launch of Pilot Project.

#### Opportunities

- ▶ There is a good chance to implement a large-scale project by achieving a competitive advantage in the form of a wide range of infrastructure facilities on site and positive public image;
- ▶ Opportunity to become one of the first large-scale Ukrainian revitalization projects with common investment model, thus support by international donor agencies might be attracted;
- ▶ Attract major foreign companies as partners/residents.

#### Weaknesses

- ▶ The project requires large capital expenditures in absolute terms for renovation and revitalization of the property and acquisition of the factory;
- ▶ Lower returns and relatively long payback period coupled with the required share of the NGO in the profit distribution might prevent investors seeking higher returns to invest;
- ▶ Lack of own financial resources for project implementation;
- ▶ No parking facilities on site might be an issue for potential visitors.

#### Threats

- ▶ Number of legal risks with regards to the structure of the investment scheme due to imperfect legislation and regulations;
- ▶ Common investment model might take longer time period to raise the required finance thus might cause major delays in the Project;
- ▶ Construction risks associated with the delay of initially planned stages or poor quality performance;
- ▶ Economic risks due to macroeconomic and political situation in Ukraine (such as high inflation, changes in the tax base, etc.).



## 8. Strategic Analysis

### Project Risks

#### Project risks identification

The implementation of any investment project is always accompanied by a certain set of risks. Considering that Promprylad revitalization project is a large-scale and unique for the Ivano-Frankivsk real estate market, its implementation will also be accompanied by a number of potential risks. Among them the two main groups are identified: risks associated with the project implementation environment AND risks associated with implementation of the project. The first group includes economic and political risks. Risks associated with the implementation of the project include construction and market risks.

Risks	Description	Possibility
<b>Economic risks</b>	<ul style="list-style-type: none"> <li>▶ This type of risk is related to the general economic situation in Ukraine and Ivano-Frankivsk region, macroeconomic, investment and demographic climate. The main economic risks include decline in economic growth, inflation risks, exchange rate fluctuations, decline in industrial production, skilled labor emigration, reduction in tourist flows, etc.</li> </ul>	Medium
<b>Political risks</b>	<ul style="list-style-type: none"> <li>▶ Risks related to the frequent changes in legal standards, adjustments/changes in the tax system, introduction of various obligatory payments, as well as possible review of land allocation decisions, its transfer to another zoning or imposing additional obligations on the land owner. Such risks are relatively difficult to predict.</li> </ul>	Medium
<b>Financial / Investment Risks</b>	<ul style="list-style-type: none"> <li>▶ Risks associated with lack of own material resources for project implementation, as well the possibility of obtaining and further debt servicing. In order to avoid the shortage of own resources, there is an opportunity to attract additional financial partner/s to the project, create reserve funds or have an alternative sources of financing;</li> <li>▶ Risks associated with difficulties in attracting additional / -investors; possible obstacles to obtain donor financing, co-financing certain components of the project, etc.</li> </ul>	High
<b>Construction risks</b>	<ul style="list-style-type: none"> <li>▶ Construction risks include risk of delayed project approval stages, risk of construction period delay, poor quality of construction works, risk of funds overspending by contractors, etc.</li> </ul>	Medium
<b>Market risks</b>	<ul style="list-style-type: none"> <li>▶ Low demand for certain types of real estate due to poor market environment, priorities of potential buyers / tenants;</li> <li>▶ Minimization or avoidance of market risks depends on the diligence of the real estate market analysis, based on which it is possible to identify the main market trends and forecasts for further development. Changes in market environment might require amendments to the concept in the process of development.</li> </ul>	Medium
<b>Hidden risks</b>	<ul style="list-style-type: none"> <li>▶ Promprylad is the first project of large-scale and multifunctional development of a similar format in Ivano-Frankivsk. Project implementation with the support of the municipal authorities is a significant benefit, as it will help to avoid numerous problems and troubles in the process of planning and receiving various approval documents for construction. However, we assume the existence of some hidden risks and obstacles that are impossible to discover at the beginning stage of the realization of the project.</li> </ul>	Low







