The biggest risk for Ukraine remains its neighbors – Michael Tippin, Tippin Corporation

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Real estate market of Ukraine needs new investments to move on. However, foreign investors do not see many opportunities today in the country. URE Club asked Michael Tippin, President and CEO of Tippin Corporation to tell about to what extent the Ukrainian market may be interesting for institutional investors and what risks seem the most threatening to them as of today.

How would you evaluate the current state of the Ukrainian real estate market?

Ukraine must now be described by region, namely east, west and central. The east is non-investable, central (Kiev) stable, and west recovering. As in every post conflict country, there is a period of stagnation whereby market participants (tenants, investors, bankers) must analyze the new economic conditions, before making a move. Local players will always move first, because they are already invested. International players will follow once a degree of normalcy and stability has returned to the macro environment (inflation, currency, liquidity). Throughout this recovery period there is almost no new supply of space, creating shortages and thereby launching the next development cycle.

How do investors in general evaluate the situation in the country?

Risk is very subjective, depending upon who, where and why you consider Ukraine. The country remains non investable for institutions, leaving the void to be filled by the IFI's such as EBRD, IFC and OPIC. For the private equity investor, it is a question of price and commensurate yield for making un-leveraged illiquid investments. The correct pricing is a work in progress.

What may be the potential risks for investors here? What moments interfere with business here the most?

In my opinion, the biggest risk for Ukraine remains its neighbors. Ukraine's geography is a blessing and curse, and something it cannot change. Even if Ukraine's domestic economy recovers, the impact of having recession amongst its neighbors and key trading partners is damaging, particularly Russian, Turkey and the Balkans.

Can you specify any positive/negative changes in the business and investment climate of Ukraine, which you have recently noticed?

The post conflict recovery is in process, and will continue. Ukraine is open for business, and attracting interest amongst early stage investors, particularly in the western region of Lviv.

During the EEA Forum it was mentioned that foreign investors, American investors in particular, are interested in Ukrainian market. You also mentioned that you personally were ready to invest in Ukraine. Do you really consider the local real estate market for investments? If so, what particular segments are you interested in: office, residential, hotel or retail real estate?

We have studied the Ukrainian market for the past decade, and watched it rise and fall quite dramatically. We believe it is now starting to climb out of the trough and start the recovery. Assuming no unexpected geopolitical and/or economic accidents in neighboring countries, West-Central Ukraine should be back on its feet by year-end 2016, and attracting foreign capital by 2017. Residential is always the first to recover, followed by retail, then office and hotel. The latter two sectors have ample standing investors, and therefore the former is likely the best buy in the near term.

What payback period would you expect investing in Ukrainian business and real estate in particular?

Of course the answer depends upon the price you pay for the investment, but at today's low prices, a ten-year business plan should produce a good result in West-Central Ukraine.

Which markets beyond EEA region do you consider as the most attractive to invest in and why?

At the moment, we are keen to buy high yield properties in: Balkans, Caucasus, and Belarus, based on their balanced supply/demand fundamentals, relatively low prices, buoyed by a gradual recovery in commodity prices.