

Kyiv Retail Market, 2017

Retailers Grasp Leftover Vacant Space As Completions Reach New Low

▲ Retail Turnover
+9.7% y-o-y

▼ New Completions
8,000 sq m

▲ Rents Up by
10-25% y-o-y

▼ Average Vacancy
5% (-6pp y-o-y)

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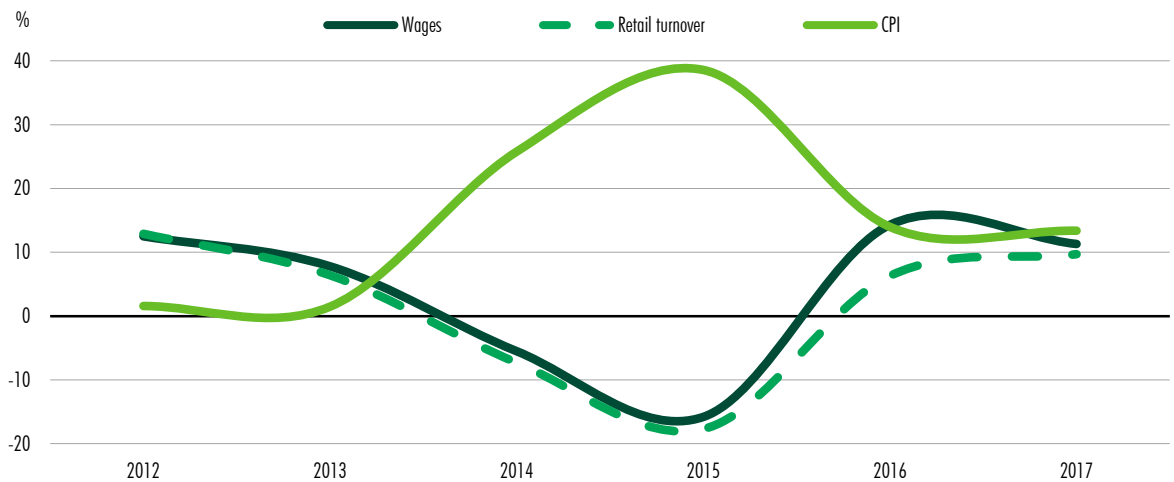
- Continued growth of organized retail turnover (+9.7% y-o-y over January – December) on the back of stronger consumer demand
- Record low new completions (8,000 sq m in 2017) due to number of delays
- Large volume of new announced supply in 2018-2020 (600,000 sq m), 222,500 sq m of which is announced for delivery in 2018
- Substantial decline in average market vacancy (down to 5%, -6 pp y-o-y) due to scant new supply and rising absorption of previously vacant space
- Noticeable rental growth (up by 10-25% y-o-y) as a combination of growing demand and virtually no new supply

DEMAND

Recovery of Ukrainian retail market is a reflection of the country’s economic revival driven by domestic consumption, which, in turn, was galvanized by gradual rise in real income over 2017. Kyiv retail turnover continued to expand growing by 9.7% y-o-y over January - December and was accompanied by a somewhat lower than last year increase in real wages (+11.3% vs 14.3%) and a steady pension growth of +5.0% y-o-y. Moreover, even though CPI reached 113.4 by December, Kyiv consumer spending continued to restore.

Occupier demand in 2017 underwent a fresh wave of noticeable growth, fueled by active expansion of multiple retail chains. Along with natural expansion, food retailers grew their market share through acquiring existing competitors. SPAR Ukraine Corporation (part of VolWest Group) signed a corporation agreement with *SPAR International* with a view to develop the supermarket chain in different formats (*Spar Express, Spar, EuroSpar, and InterSpar*) across Ukraine.

Figure 1: Kyiv Wages, Retail Turnover and Consumer Price Index (% change, y-o-y)



¹ Excluding the temporarily occupied territories, the Autonomous Republic of Crimea, the city of Sevastopol and part of the anti-terrorist operation zone. ² Includes organized retail sales only
Source: Kyiv Statistics Office

Table 1: Cross-Border Market Entry in Kyiv Shopping Centers

Dream Town	
Lee Cooper	Value and Denim
Globus	
VAIDE	Mid Range Fashion
Wycon	Other
Gulliver	
Bugatti	Luxury and Business
Choupette	Specialist Clothing
Hanro	Specialist Clothing
HATLEY	Specialist Clothing
Tous	Luxury and Business
Xetra	Mid Range Fashion
Karavan	
Carducci	Luxury and Business
Lavina Mall	
Fynch-Hatton	Mid Range Fashion
Goldenpoint	Specialist Clothing
Goldschmidt	Other
Okaidi	Specialist Clothing
Saucony	Specialist Clothing
VIPA	Specialist Clothing
Ocean Plaza	
BALDESSARINI	Luxury and Business
Cole Haan	Luxury and Business
Collezione	Mid Range Fashion
Falconeri	Luxury and Business
Hugo Boss	Luxury and Business
Imperial	Mid Range Fashion
It's Skin	Other
Liu Jo	Luxury and Business
Ni Hao	Coffee and Restaurants
Tutti Frutti Frozen Yogurt	Coffee and Restaurants
Venoyfe	Luxury and Business
Prospekt	
Xiaomi (Mi)	Consumer Electronics
Sky Mall	
Replay	Mid Range Fashion
Scotch&Soda	Luxury and Business
Stradivarius Men	Mid Range Fashion
TONYMOLY	Other
Under Armour	Specialist Clothing
TSUM	
Superdry	Mid Range Fashion

Source: CBRE Ukraine

French hypermarket retailer Auchan Group acquired nine *Karavan* hypermarkets, with three out of nine locations being in Kyiv. Alongside acquisition strategy, Auchan resumed natural expansion after a 3-year freeze, with one hypermarket scheduled for opening in Phase I of Rive Gauche SC in Q1 2018. In addition to Auchan Group's recent acquisition, the company also sold 20% of their shares in a Ukrainian food retail company Furshet to an investment company VI2-Partners. A Ukrainian discounter ATB bought half of the shares in *Colibris* food brand from Ukrainian food retailer Avanta Group.

Whilst the Ukrainian retail market experienced a surge in development of domestic fashion brands, leading existing international retailers also expanded their presence (Inditex Group and LPP Group brands, LC Waikiki, and JYSK) and a number of new international brands entered or re-entered the market. Such brand expansion is predominantly evident in shopping centers, which serve as primary shopping destinations, as opposed to high street locations. Among the most remarkable 2017 openings are such brands as: a US beauty and skin care brand *Venoyfe*, an Italian mid-range fashion brands *Imperial* and *Replay*, a US sportswear brand *Under Armour*, a Russian childrenswear brand *Choupette*, two South Korean cosmetics brand *TONYMOLY* and *It's Skin*, an Italian cosmetics brand *Wycon*, a German high-end fashion brand *Bugatti*, and a Latvian cosmetics brand *Goldschmidt*. In addition, *Hugo Boss* brand has re-entered the Ukrainian retail market with a new franchising partner. A Japanese fast fashion designer brand *MINISO* was another new entry in 2017, opened on 29/1 Khreschatyk St. Furthermore, it is worth noting that the existing retail brands such as *Tous*, *Weekender*, *F91* and *Sassofono* reported plans for active expansion in Kyiv and in other Ukrainian regions. On the other hand, a Russian discounted footwear brand *Kari* is contemplating exiting the Ukrainian market. Additionally, after a 3-year presence in Ukraine, the German DIY retailer *Praktiker* left the market partly affected by the competition from the largest national DIY retailer Epicenter K.

SUPPLY

New Supply in 2018-2020 in Kyiv

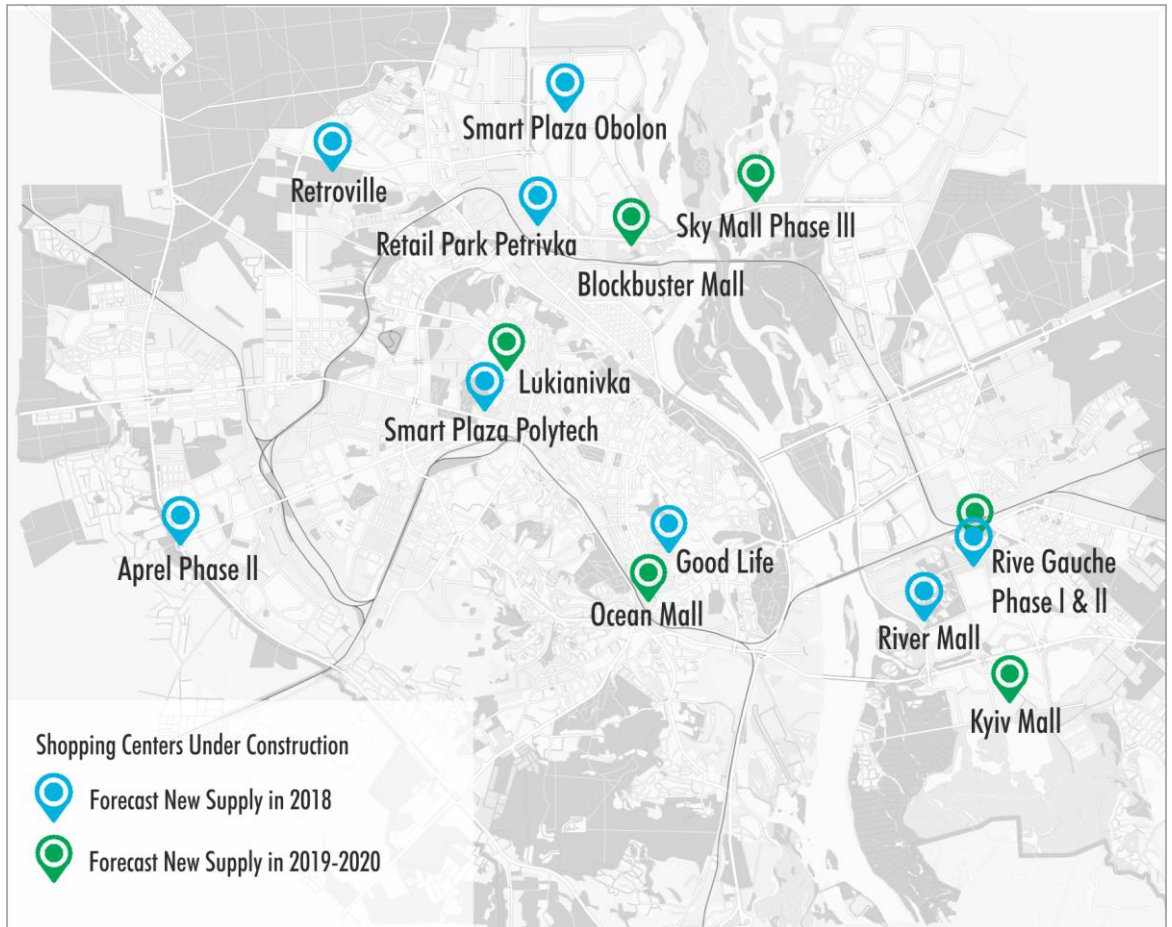


Table 2: Key shopping centers in the pipeline, as of 2017

NAME	DEVELOPER	GLA, SQ M	ANNOUNCED FOR DELIVERY
Rive Gauche (Phase I)	Immochan Ukraine	20,500	2018
Smart Plaza Polytech	UDP	15,000	2018
Retail Park Petrivka	Immochan Ukraine	11,000	2018
Smart Plaza Obolon	UDP	11,000	2018
River Mall	Vilna Ukraina	58,700	2018
Retroville	Stolitsa Group	80,700	2018
Aprel (Phase II)	Aprel Development	18,100	2018
Good Life	Novopecherskyi Pasazh/Dosvid 2002	7,500	2018
Lukianivka	Arricano Real Estate	47,000	2019
Rive Gauche (Phase II)	Immochan Ukraine	50,000	2019
Blockbuster Mall	Mandarin Plaza/Megaline	114,000	2019-2020
Ocean Mall	Mandarin Plaza/Megaline	70,000	2019-2020
Kyiv Mall	Dilais	58,000	2019-2020
Sky Mall (Phase III)	Prizma Beta	39,000	2019-2020
Respublika	K.A.N. Development	135,000	Halted

Source: CBRE Ukraine

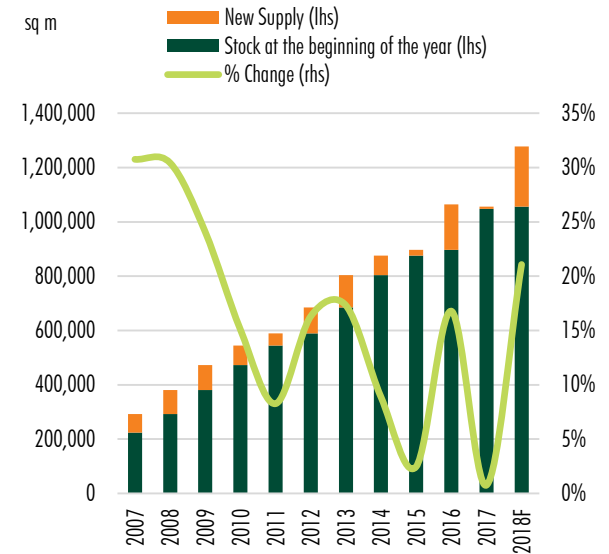
After 2016, a year marked by large volume of shopping center completions (168,000 sq m in new supply), new supply of 2017 was largely impacted by multiple pushbacks of shopping center completion dates. The affected schemes were Rive Gauche Phase 1 (20,500 sq m GLA), Retail Park Petrivka (11,000 sq m GLA), and Smart Plaza Polytech (15,000 sq m GLA). Hence, after the opening of Academ City (8,000 sq m GLA) in Q2 2017, there were no new shopping center openings over the second half of 2017, marking it the year of record low new supply over the last 15 years. The total competitive stock of retail premises thus remained at 1.06 mln sq m (+0.8% y-o-y). At the same time the Ukrainian retail market has an overwhelming amount of SC space at different stages of development, with a total volume of 600,000 sq m announced for opening over the 2018-2020 period (excluding halted construction of Respublika SEC). However, the development pace was lackluster, with vast majority of completion dates postponed mainly due to a lack of funding.

VACANCY AND RENTS

Average vacancy decreased over the course of the year by 6pp from 11% down to 5%, caused by stronger retailer demand, low volume of new supply, and gradual absorption of vacant retail space added to the market before the end of 2016. It is worth noting that low volume of new supply was fully absorbed without any impact on vacancy. Prime vacancy remained in the 0%-2% range driven by strong demand for prime space among existing and new retailers.

After an already evident rental increase over 2016, rents in 2017 continued to recover and posted a healthy 10%-25% growth during the year. Rents for prime space remained relatively stable in the \$60-86/sq m/month range, with lower bound of the range growing by ca. 12% y-o-y. Secondary rents varied in the \$32-45/sq m/month range as of the end of 2017 after increasing by 10%-25% during the year by recovering from a dramatic decline of 2014-2015.

Figure 2: Kyiv Shopping Center Stock



lhs – left hand side; rhs – right hand side
F- Forecast

Figure 3: Base Rents Range in Kyiv Prime Schemes

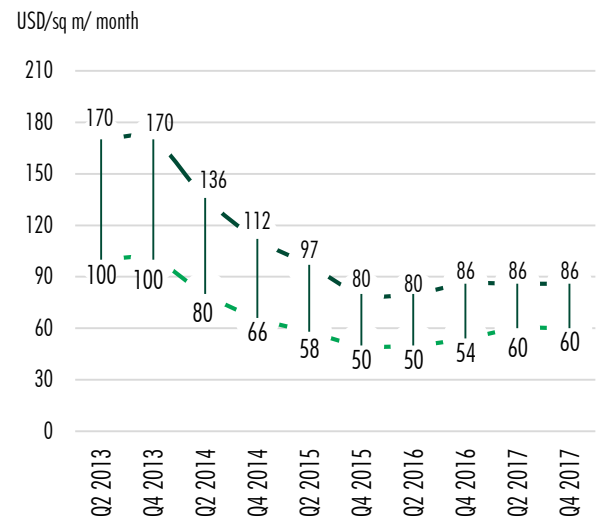
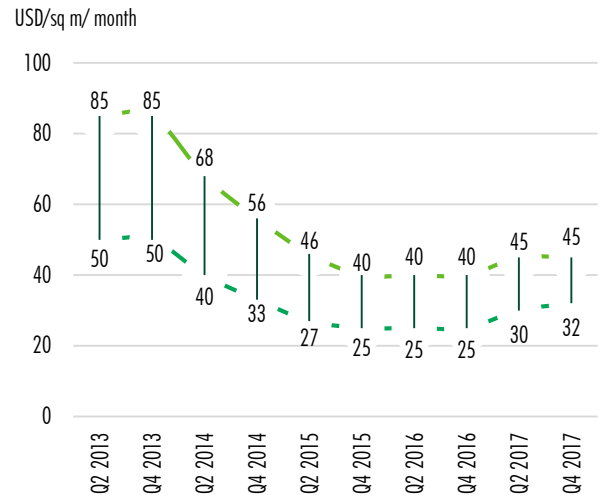


Figure 4: Base Rents Range in Kyiv Secondary Schemes



Source: CBRE Ukraine

INVESTMENT

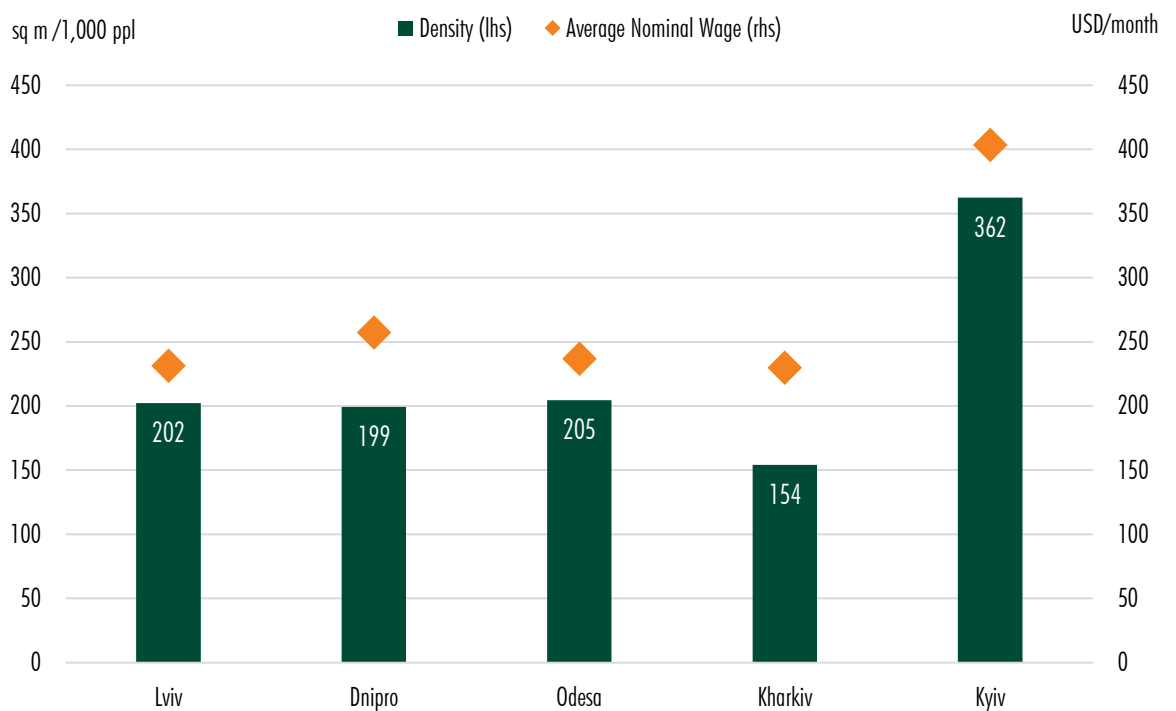
2017 was a year of sustainable recovery, evident from improving retail market fundamentals. In 2017 prime yields compressed by ca. -1 pp y-o-y standing at 12% as of the end of the year, marking for a more predictable investment environment. There were no notable investment transactions recorded in 2017 across retail sector, whilst some openly marketed retail assets were put up for sale primarily by the banks. We expect active healthy investment activity in 2018, provided the economy and consumer demand continue to grow steadily. Hence, growing rental incomes make retail assets a real estate product to observe, with investor interest focused on prime properties and value-add opportunities, as near-term completions remain uncertain.

REGIONS

With national consumer spending growing steadily, retail turnover continued to expand, with +8.6% y-o-y, where the regions of Zakarpattia and Lviv experienced the highest growth of +18.9% and +12.8% y-o-y respectively. Such performance was stipulated

by an increase in the real wage and pension rate, as well as supported by the moderate inflation pace. Whilst the regional food retail market is traditionally dominated by Ukrainian chains of ATB, Fozzy Group, and Tavria V, Auchan Group also expanded into the regions. Through acquisition of *Karavan* hypermarkets, Auchan Group strengthened its presence in four new cities of Kharkiv, Dnipro, Zhytomyr, and Chernivtsi and now has a total of 20 stores across the country. Another Ukrainian retailer that owns VARUS supermarket chain, with a view to expand in the regions acquired multiple *BILLA Ukraine* supermarket units located in Zaporizhzhia and Dnipro. *SPAR International* also plans to grow regionally with 9 shops opened in 2017 in Kharkiv, Lutsk, Ternopil, Rivne, and Vynohradiv. A Ukrainian DIY retailer Epicenter K also grew with two new stores opened in Uman and Dubno, and significantly expanded its existing hypermarkets in Mukachevo, Odesa, Chernivtsi and Ivano-Frankivsk. Now the chain has a total of 45 hypermarkets across Ukraine.

Figure 5: Density and Purchasing Power in the Largest Regional Cities



lhs – left hand side; rhs – right hand side
Source: CBRE Ukraine

In 2017 new supply was limited to a small-scale Kadorr City Mall (15,000 sq m GLA) in Odesa, as development of large regional projects remained inactive. On the one hand, such sluggish pace of regional retail development is handicapped by the lack of financing available in particular for non-prime schemes. On the other hand, several large-scale projects may renew or start construction in 2018 on the back of a distinct trend of retailer demand revival. For instance, Immochan plans to deliver Phase I of Les Vignes SEC (17,000 sq m GLA) in Odesa in 2018, while Nikolskiy SEC (52,000 sq m GLA) by Budhouse Group in Kharkiv is likely to reach the market no earlier than in 2019. Moreover, Budhouse Group announced its plans to start construction of Fabrika 2 SEC (68,000 sq m GLA) in Zaporizhzhia in 2018, with the delivery of the first phase planned for 2019. At the same time another large scheme of ca 100,000 sq m GLA was announced to have commenced construction in Zaporizhzhia.

Retail area density per 1,000 habitants remained broadly equal in country’s largest cities of Odesa (204 sq m per 1,000 habitants), Dnipro (199 sq m per 1,000 habitants), and Lviv (202 sq m per 1,000 habitants), whilst Kharkiv was least saturated by quality retail space with 154 sq m per 1,000 habitants. Furthermore, regional rents in modern shopping centers displayed an upward movement mainly in schemes with good locations and professional concept, whilst vacancy in the aforementioned cities stood close to 0% due to limited availability of quality premises and growing demand from retailers.

OUTLOOK

Looking ahead to 2018, we expect further growth of consumer demand as a result of improving macroeconomic indicators. Expansion of existing and entry of new retailers serve as positive signs of long-term retail market growth, with anticipation of more robust consumer spending, as well as growing footfall and turnover.

Moreover, there are expectations for new entries from brands such as *Decathlon* (French specialist closing retailer),

IKEA (Swedish affordable homeware retailer), *H&M* (Swedish mid-range fashion brand), *Zara Home* (Homeware brand of Spanish Inditex Group), *AllSaints* (British luxury and business brand), *Santoni* (Italian luxury and business brand of Helen Marlen Group), *Jo Malone* (British luxury perfume brand), and *Kilian* (French luxury perfume brand). In 2018 we also expect two Turkish brands to enter the market, namely *DeFacto* (new entry) and *KOTON* (re-entry) that have already announced their expansion plans.

Almost 222,500 sq m of new supply is expected for launch by the end of 2018, as the result of multiple openings being shifted from 2017 to 2018. The new expected 2018 supply consists of 6 small-to-medium scale projects of Rive Gauche Phase 1 (20,500 sq m GLA), Retail Park Petrivka (11,000 sq m GLA), Smart Plaza Polytech (15,000 sq m GLA), Smart Plaza Obolon (11,000 sq m GLA), Good Life (7,500 sq m GLA), and Aprel Phase II (18,100 sq m GLA), as well as two large schemes River Mall (58,700 sq m GLA) and Retroville (80,700 sq m GLA).

Table 3: Kyiv Cross-Border Market Entry Pipeline

Homeware & Department Stores	
IKEA	TBC
Zara Home	Gulliver
Luxury & Business	
AllSaints	Ocean Plaza
Santoni	Mandarin Plaza
Jo Malone	Gulliver
Kilian	Gulliver
Mid-Range Fashion	
H&M	Lavina Mall
DeFacto	Globus
Koton	Sky Mall
Specialist Clothing	
Decathlon	Petrivka Retail Park

Source: CBRE Ukraine

Remaining vacant space in a major shopping center Lavina Mall is expected to shrink further, judging from the recent absorption pace in the project (ca. 70% of area occupied as of the end of 2017). Hence, the general market vacancy trend will largely depend on timely delivery of the announced projects currently under construction, in particular the two large-scale shopping centers River Mall (58,700 sq m GLA) and Retroville (80,700 sq m GLA). While delays in commissioning are possible, the average market vacancy is likely to increase in case the

entire announced pipelined volume enters the market. Rents for prime space are forecast to trend upwards, given strong demand along with minimum vacancy in the most sought-after locations. Including the 2018 supply upswing, the pipelined volume remains significant with the total of 600,000 sq m announced for opening over the 2018-2020 period. Such a sharp supply growth in the next 3 years is likely to hold back rental growth outside of prime due to increasing availability of retail space.

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Definitions (in alphabetical order)

Prime Rent - represents the typical “achievable” open market headline rent which an international retail chain would be expected to pay for a ground floor retail unit of up to 200 sq m commensurate with demand in each location. It is assumed that the occupier will also be agreeing to a package of incentives that is typical of the market at the time.

Prime Yield - represents the yield which an investor would receive when acquiring prime property in a prime location (CBD or major urban intersection, for example), which is fully let at current market value rents. Prime Yield should reflect the level at which relevant transactions are being completed in the market at the time but need not be exactly identical to any of them, particularly if transaction flow is very limited or made up of unusual one-off transactions. If there are no relevant transactions during the survey period a hypothetical yield is quoted and is not a calculation based on particular transactions, but it is an expert opinion formed in light of market conditions, but the same criteria on building location and specifications still apply.

Shopping center - a retail property that is planned, built and managed as a single entity, comprising units and “communal” areas with a minimum gross leasable area (GLA) of 5,000 sq m and offering good quality tenant-mix, at least 50% of which should consist of chain retailers.

Under Construction - represents the total amount of gross leasable area of properties where construction has commenced on a new development or in existing properties where a major refurbishment/renovation is ongoing at the survey date. This is where site works (foundation works) have begun or the ground has been broken (excavation works). It does NOT include demolition, sites being cleared for possible development in the future, or site preparation works where no specific development plans have been approved.

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