

### Quick Stats

	Change from	
	2011	2010
New Supply	↑	↑
Rent	→	↑
Vacancy	→	→

### Hot Topics

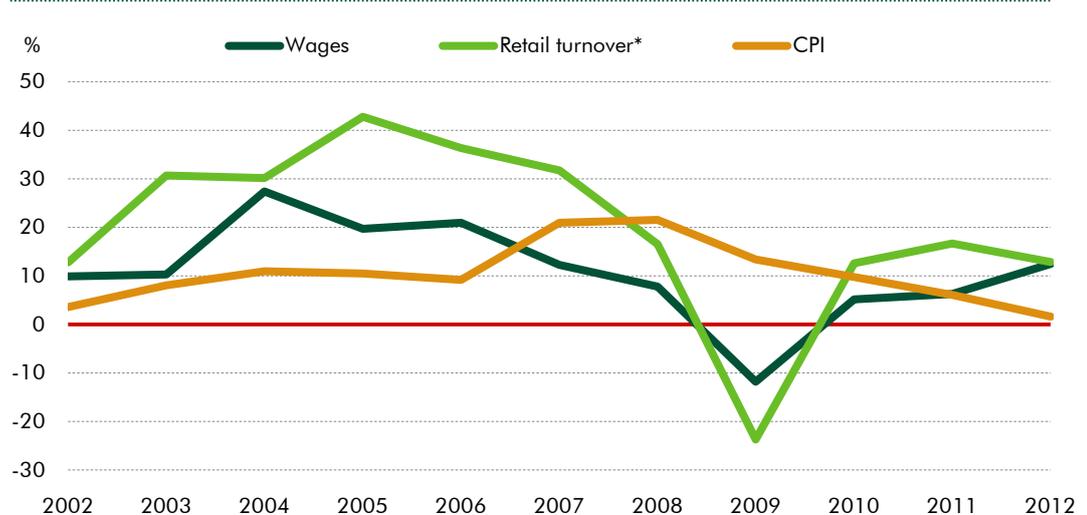
- Retailer expansion on the back of strong growth in sales (+12.9% y-o-y – Kyiv)
- New supply of quality retail space amounted to 96,000 sq m, which is twice the level of 2011
- Stable rental rates during the year
- Low vacancy due to absorption of almost all new shopping center space delivered to the market

### FUNDAMENTALS

Ukrainian economy slowed down considerably at the end of 2012. Industrial output declined by 1.8% y-o-y mainly due to a fall in production in metallurgy and machine-building sectors against the backdrop of deteriorating external economic environment. Agriculture also posted a decline (-4.5%) due to a high comparison base of last year. Strong consumer demand was the only key driver of economic growth and had a positive effect on the retail sector. Still, according to the preliminary estimates of the State Statistics Committee, real GDP grew by only about 0.2% in 2012. Real GDP growth in 2013 is expected to range from 1.3% to 3.7%, as per the latest forecasts of the leading international and national organizations.<sup>1</sup>

Tight monetary policy of the NBU has further reduced the rate of consumer price inflation in Ukraine to 0.6% y-o-y and contributed to the stability of the national currency. Given the risk of hryvnia devaluation and the likelihood of rising utility tariffs in 2013, the rate of inflation is expected to accelerate to 6-8.2%.

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



\* - includes organized retail sales only  
Source: Kyiv Statistics Office

Strong growth in real wages (+12.5% y-o-y – Kyiv) coupled with low inflation resulted in a high level of consumer demand in 2012. According to GfK Ukraine, the index of consumer sentiment reached 85.1 at the end of 2012, which is 9.8 points higher than in 2011. As a result, despite the general economic downturn, final retail turnover in Kyiv grew at a very healthy rate of 12.9% y-o-y thanks to strong consumption, which, in turn, was fuelled by higher real wages and expanding consumer lending.

<sup>1</sup> - EBRD, Oxford Economics, Cabinet of Ministries of Ukraine, Ministry of Economic Development and Trade of Ukraine, Troika Dialog, Goldman Sachs, National Bank of Ukraine

**DEMAND**

Retailers continued to expand thanks to significant growth in retail turnover in 2012. For example, the national chains like Fozzy Group, ATB, EKO-market, Retail Group, Ukrainian Retail, Nash Kray and Amstor – all in the **food retail segment** – were the most active in terms of number of stores opened during the year. Key players in that segment have demonstrated flexibility in their development strategies diversifying risks by launching new formats. “Corner Shop” is increasingly becoming more popular among retailers and is mainly driven by attempts to minimize opening costs and rents paid and is driven by lack of quality retail space. The following retail chains were well established in the corner shop format in 2012: VK-Express (Retail Group), Varus-Market (Omega), Amstor Express (Amstor). Furthermore Lithuanian company BT Invest and Russian retail chain X5 Retail Group announced their intentions to develop corner shop chains named *Novus-Express* and *Perekrestok-Express* respectively. In the premium segment it is expected that in 2013 Russian chain *Azbuka Vkusa* will open its first store and also that a local company Polyana Ukraine Group will launch its chain of organic food called *FOOD Polyana*.

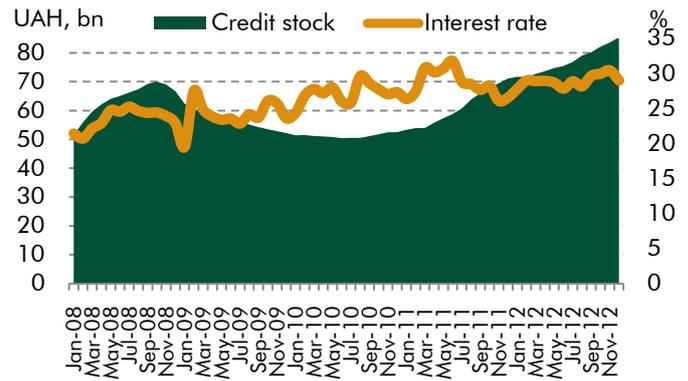
Hypermarket segment is developing less rapidly due to a lack of available space. Among the key events of the year was the opening of *Real* hypermarket in Phase I of Ocean Plaza shopping center, German retailer’s first store in Kyiv. *Auchan* in turn announced plans to open two hypermarkets per year starting from 2014. In particular *Auchan* will be the anchor tenant of Respublika and Kvadrat shopping center in Vyrlitsya mixed-use complex.

**Retail Market New Entries 2012**

MID-RANGE FASHION	MID-RANGE FASHION	FOOTWEAR&ACCESSORIES	LUXURY&BUSINESS	OTHERS
Max Mara Weekend	Cinque	MICHAEL Michael Kors	Dolce&Gabbana	KFC
Trussardi Jeans	bebe	Rebeca Sanver	Prada	Hesburger
Armani Jeans	Camicissima	Longchamp	Valentino	Sega Fredo
Diesel	Napapijri	Camper	Billionaire Italian Couture	Pellini
s.Oliver	Atelier de Courcelles	Denis	Armani Collezioni	Happyllon
Reiss	by PAPRIKA	Why Denis	Faberge	
W52 Jeans	SUITEBLANCO	Kari	Agent Provocateur	
Pepe Jeans London	LC Waikiki	Karma of Charme	ERES	
BCBGMAXAZRIA	lady&gentlemen CITY	Wojas		
OVS	Piazza Italia	Evita Peroni		
OVS kids	Collezione			

Source: CBRE

**Stock of Consumer Credit\* and Interest Rate in Ukraine**



\* - for consumer loans issued in UAH, monthly average weighted rate per annum  
Source: National Bank of Ukraine

Among other trends in retail market a noticeable phenomenon of 2012 was the expansion of retail chains through M&A activity. For example, Auchan is in the process of completing acquisition of *Real* hypermarket chain, part of the Metro Group in Poland, Romania, Russia and Ukraine. In the segment of Health&Beauty, Omega company, which manages *Eva* chain of stores, is negotiating the acquisition of two local chains. On top of it one major M&A deal is in progress in the white-and-brown segment involving local market players.

**Fashion retail segment** was the leader in terms of the number of new brands to enter the market in 2012. New stores of luxury brands *Prada*, *Valentino*, *Dolce&Gabbana*, *Armani Collezioni* among others were opening both on the main retail streets of Kyiv and in the shopping centers located in the central part of the city. Launch of the majority of flagship stores of the mid-range segment took place in the Ocean Plaza shopping mall.

**Fast-food** restaurants and coffee shops were also active during the year. A number of notable opening took place throughout the year such as *KFC*, a popular US chain, *Hesburger*, a Finish one, as well as several Italian coffee shops, particularly *Pellini* and *Sega Fredo*. Furthermore American chains of fast-food restaurants such as *Texas Chicken* and *Subway* as well as *Sbarro*, a chain of pizzerias, and a Russian chain of Italian restaurants called *Jamie's Italian* are considering to enter the local market soon.

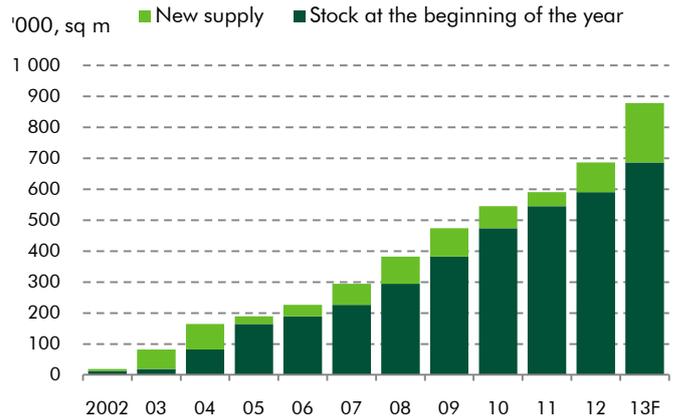
**SUPPLY**

With the commissioning of two professional shopping centers in Phase I of Ocean Plaza (72,000 sq m GLA) and RayON (24,000 sq m GLA), new supply of professional retail space in 2012 amounted to 96,000 sq m. Although it did not reach the planned amount of 250,000 sq m, the volume of new supply has nonetheless doubled vs. 2011. As a result the total stock of quality retail space<sup>2</sup> increased by 16% y-o-y and now stands at some 686,200 sq m. Provision rate of retail space in Kyiv thus increased from 210 sq m to 244 sq m per 1,000 people. Despite this improvement, retail market in Kyiv is not saturated yet, especially when compared to other capital cities in Central and Eastern Europe.

Opening of the majority of shopping centers previously planned for 2012 (Silver Breeze mixed-use, Gulliver mixed-use, Atmosfera shopping and entertainment center (Domosfera Phase II), Art Mall shopping and entertainment center (Alacor City), Marmelad shopping and entertainment center) was rescheduled for 2013. According to developers' declarations, six high-quality shopping centers with the total area of ca.192,000 sq m are planned for delivery in 2013. Among them is the first outlet center in Ukraine called Manufactura (ca. 25,000 sq m GBA). Should all the planned schemes get delivered, total retail stock will increase by 28% y-o-y and will reach approximately 878,100 sq m.

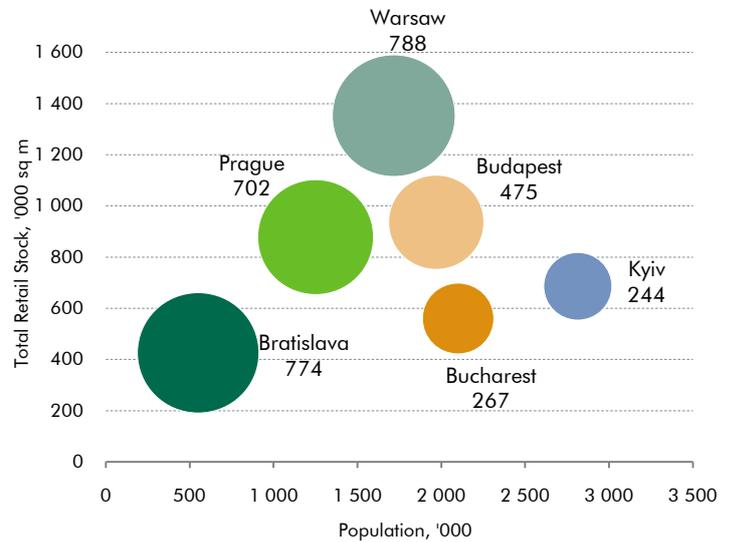
A prominent trend in shopping center development is inclination towards regional and super-regional formats. Average GLA of the shopping centers under construction at the end of 2012 amounted to approximately 48,000 sq m, which is almost double the average size of currently functioning shopping schemes (25,000 sq m). An increase in the scale of the projects is accompanied by quality improvements in the shopping center concept. Most retail properties under construction will feature strong anchor tenants one of

**Kyiv Shopping Center Stock**



F – forecast  
Source: CBRE

**Retail Premises per 1,000 Inhabitants in Selected CEE Capitals in 2012**



Source: CBRE

which is represented by an extensive entertainment component. An emphasis from a shopping center attendance is thus shifting from pure shopping to leisure.

Another sign indicating dynamic development of the retail segment is the fact that during the past year developers initiated construction of three major schemes in Respublika (135,000 sq m GLA), Prospect (41,000 sq m GLA) and Kvadrat (73,200 sq m GLA) as part of Vyrlytsya mixed-use complex. Prospect and Kvadrat are located on the Left bank of the Kyiv which means that as of today four of the eleven retail properties under construction are located on the Left bank of the city.

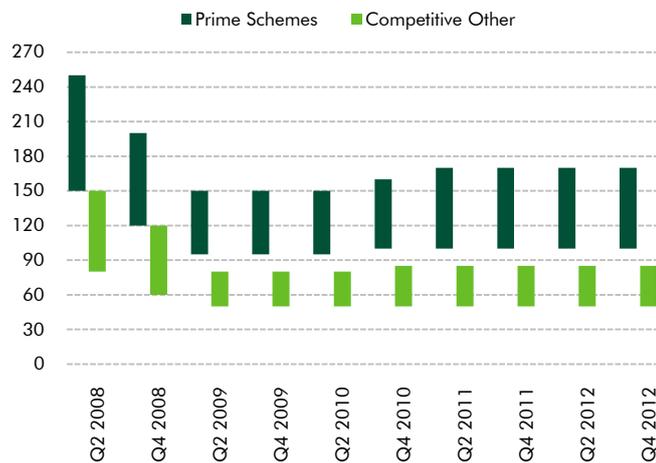
<sup>2</sup> – [shopping center is] a retail property that is planned, built and managed as a single entity, comprising units and “communal” areas with a minimum gross leasable area (GLA) of 5,000 sq m; the quality of tenant-mix, 50% of which should consist of chain retailers.

VACANCY & RENTS

Shortage of quality space in Kyiv and strong demand from retailers ensured rapid absorption of all new professional retail space delivered to the market. At the end of 2012, vacancy in prime shopping centers remained at a minimum level (0-2%). Vacancy rates in other shopping centers ranged between 3% and 5%.

Despite strong demand for quality retail space from retailers and low vacancy rates in professional schemes, slowing economic growth in the second half of 2012 did not contribute to the growth of rental rates. Base rents remained stable throughout the year and in prime shopping centers ranged between \$100 and \$170/sq m/month (triple net) for the standard gallery section of 100-200 sq m. Rents in other shopping centers were \$55-85/sq m/month.

Base Rents in Kyiv (USD/sq m/month)

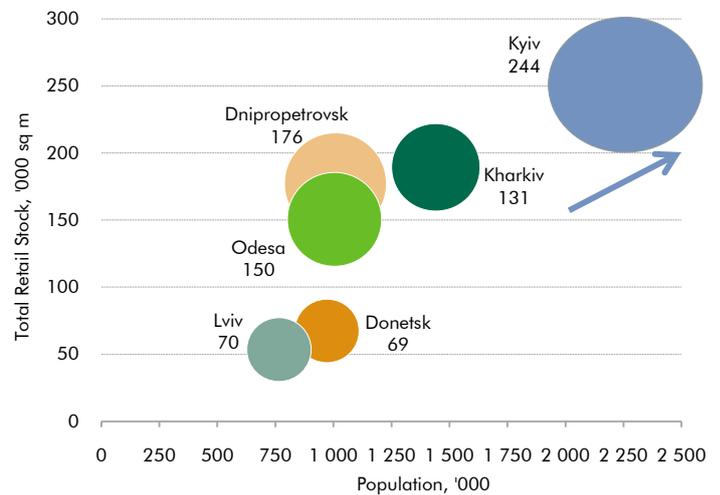


Source: CBRE

REGIONS

Cities with the population of over 1 million people have demonstrated the highest absolute levels of retail turnover. At the same time, the growth rate of retail turnover in some smaller cities with a population of 300,000-500,000 people (for example, Simferopol, Sevastopol, Mariupol, etc.) is much higher than the total figure for the country as a whole, which was 13.7% y-o-y at the end of 2012. Sustained high rates of retail growth for the second straight year coupled with shortage of quality space in the regional cities indicates that there is a great potential for the development of retail sector not only in Kyiv but also in regional cities of Ukraine.

Retail Premises per 1,000 Inhabitants in Ukrainian Largest Cities in 2012



Source: CBRE

Typical Lease Terms in Kyiv Shopping Centers

Rent payment	Rent is paid in advance, on a monthly basis and is quoted exclusive of 20% VAT and service charges. Fixed rent payments per sq m per month of leasable area is common market practice, but for anchor tenants/major international retailers with significant market power a turnover or mixed type rent (base or % of turnover, whichever is the higher) can be applied.
Rent escalation/Rent review	Rental rates are linked to USD with payments made in UAH at the NBU exchange rate on day of payment. Indexation is applied annually in line with pre-agreed inflation rates or at a fixed rate of 3-10%.
Tenants covenant	The tenant must provide a deposit or bank guarantee for an amount equivalent from one to three monthly rentals.
Service charge	Service charges generally cover maintenance and cleaning of the common areas, management fee and technical maintenance. Utility costs such as water, heating and electricity are not included and are paid separately per meter. Service charges amount to \$1-2/sq m/month for anchor tenants and \$3-5/sq m/month for other tenants.
Incentives	Landlord provides a new tenant rent free period of 45-120 days for internal finishing work.
Lease length and term	Lease contract is usually for a period of up to 3 years. For anchor tenants lease term can be up to 10 years.
Repairing liability	Landlord usually undertakes repairs of the structure, common areas and roof. All internal maintenance/repairs is tenant's responsibility.

Source: CBRE

In 2012 the development of food retailers (Fozzy Group, ATB, Ukrainian Retail, Retail Group, Spar, Varus, Tavria-V, Nash Kray, Amstor) on the regional markets took the form of small stores like that of convenience stores, discounters and corner shops. Furthermore there were four openings in the segment of Cash & Carry: two stores of Metro Group opened doors in Sevastopol and Odesa and two stores of Fozzy Group began operations in Simferopol and Kremenchuk.

A notable trend in the regional market in 2012 was the expansion of large international retailers operating without involvement of franchisees. Historically international retail chains focused on the development in the capital city and other large cities with 1+ million population, but recently the trend shifted in that retailers express interest in smaller towns (300,000+ ppl.), subject to availability of quality retail space in sought-after locations. Following due consideration of consumer potential in a given city (income level, population, employment etc.), retailers are adjusting their existing stores developing brands in low and medium price segments. Thus Spanish Inditex Group continued its expansion on the regional markets, opening *Bershka*, *Stradivarius* and *Pull&Bear* stores in Fabrika shopping center in Kherson (337,000 ppl.) and Lubava shopping center in Cherkasy (286,000 ppl.). The first stores of the Polish retail chain L.P.P SA (*Reserved*, *Mohito*, *Cropp Town* and *House*) opened in several cities: in Magelan SC in Kharkiv and in Phase II of Fabrika SC in Kherson. Zlata Plaza shopping center

in Rivne (300,000 ppl.) also welcomed *Reserved* brand. Additionally L.P.P SA rented more space to open all four brands in Forum SC in Lviv (760,000 pop) and Lubava shopping center in Cherkasy. Also noteworthy was the opening of *New Yorker* store in Sun Gallery in Kryvyi Rig (650,000 pop). Danish company JYSK Holding (household goods and appliances) also declared that it is actively expanding in the regional markets. The company has bought out the assets of its Ukrainian partner (Terra Center), previously developing JYSK stores on franchise terms, and is now planning to double the number of its stores in one year.

Some brands that made their debut on Kyiv the market were entering regional market at the same time. For example, MD Group of companies presented *Pepe Jeans London* brand in Donetsk and Ukrainian company ARGO opened its first mono-brand store *Piazza Italia* in Odessa (City Center shopping center). Another notable event in Odessa retail market was the opening of *Weekend Max Mara* store in Sady Pobedy shopping center. Also, Karavan shopping centers in Kharkiv and Dnipropetrovsk welcomed OVS, an Italian brand.

The regional market is becoming more attractive as it is demonstrating rapid growth of quality retail space. The total volume of new supply in 2012 in provincial cities adds up to ca. 130,000 sq m with only 32% of that supply recorded in cities with the population of over 1 million people.

#### Key Retail Schemes in 2012-2013 in Ukraine

Retail Schemes Delivered in 2012				
NAME	CITY	DEVELOPER	GLA, sq m	COMPLETION/ ANNOUNCED DELIVERY
City Center (Phase I)	Odesa	GMG Development	30,000	2012
Fabrika (Phase I)	Kherson	Bud House Group	27,500	2012
Fabrika (Phase II)	Kherson	Bud House Group	15,000	2012
Suvorivskiy	Kherson	Oskar	32,000	2012
Meganom (Phase I)	Simferopol	Krymska Developerska Compania	14,600	2012
Cascade Plaza (Phase I)	Dnipropetrovsk	Alef Estate	11,000	2012
Future Retail Schemes Under Construction				
Lubava	Cherkasy	Bud House Group	18,000	2013
Fabrika (Phase III, IV)	Kherson	Bud House Group	22,000	2013
Rose Park (Phase II)	Donetsk	Auchan Group	32,500	2013
City Center (Phase II)	Odesa	GMG Development	21,000	2013
Kotovskiy	Odesa	Local developer	20,100	2013
Frantsuzkiy Bulvar (Phase III)	Kharkiv	Aksioma	34,200	2013
Magelan (Phase II)	Kharkiv	Kray Property	26,700	2013
Pivdenna Galereya (Phase II)	Simferopol	Arricano Real Estate	19,700	2013
Meganom (Phase II)	Simferopol	Krymska Developerska Compania	35,400	2013
Avrora	Zaporizhya	Aurora Development	20,000	2013
Port City	Mariupol	Investytsii i razvitie	52,000	2013

Source: CBRE

The majority of new deliveries – i.e., 68% – took place in mid size cities with population of 300,000-500,000 people. In particular, Kherson saw the opening of Phases I and II of Fabrika shopping center (27,500 and 15,000 sq m GLA, respectively) as well as that of Suvorovskiyi (32,000 sq m GLA). Also Phase I of Meganom shopping center (14,600 sq m GLA) opened in Simferopol. Another 300,000 sq m of retail space is currently under construction regionally nationwide and expected to be commissioned in 2013. Currently Kharkiv, Simferopol and Mariupol are leading in terms of the amount of space under construction.

## YIELDS

A landmark event for the retail market in 2012 was the acquisition of the Phase I of Ocean Plaza (72,000 sq m GLA) by a Russian company TPS Real Estate. This transaction is valued at \$285-350 million. Thanks to this deal and the overall positive dynamics of the retail segment, prime yield has declined from 13.0% to 12.5% by the year end. Provided no significant deterioration in the economic and political situation in 2013, retail yields are expected to compress further.

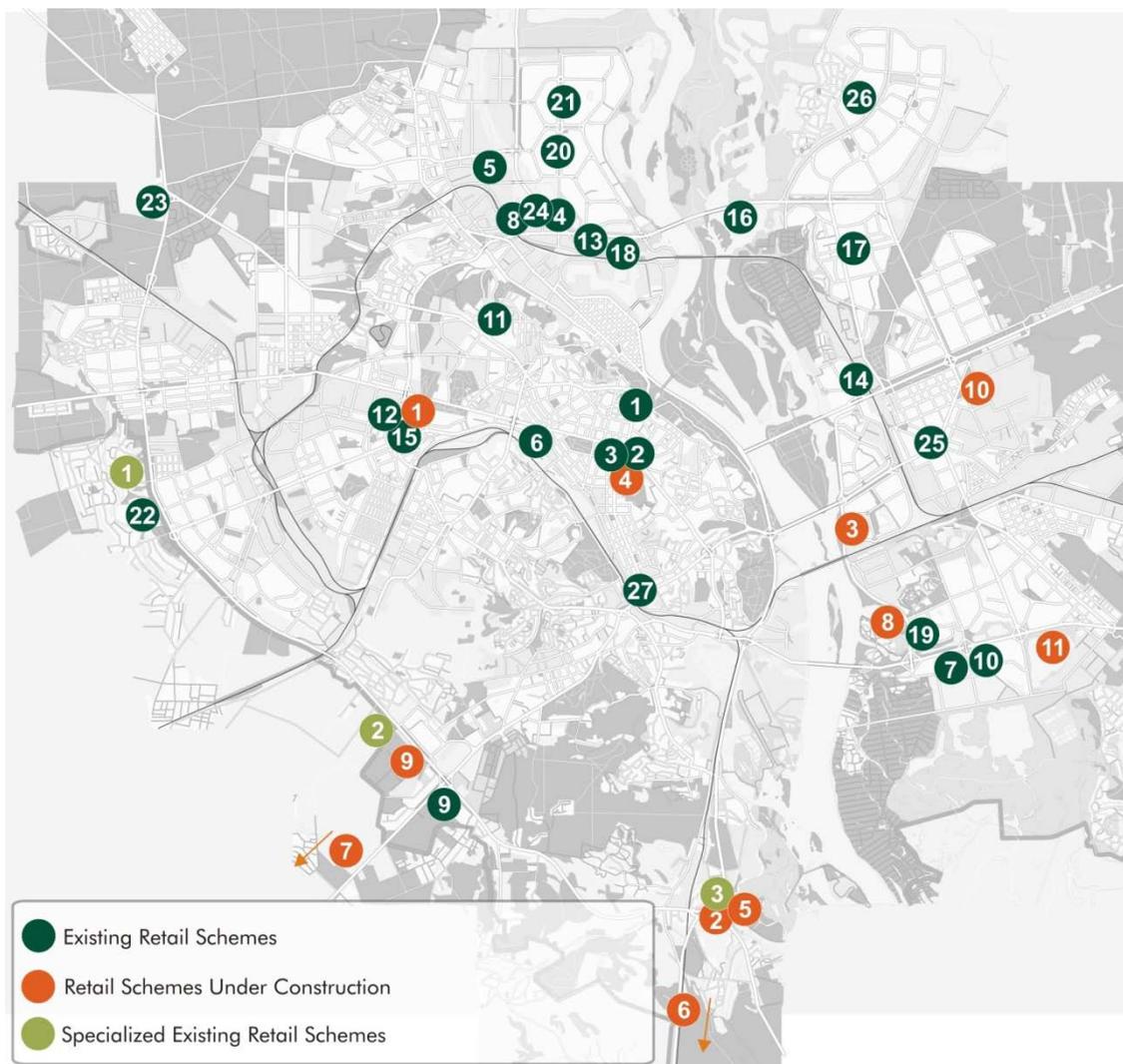
## OUTLOOK

Retail market continues to be the most dynamic segment of the commercial real estate as domestic consumption keeps rising in both Kyiv and provincial cities. Should consumer demand stay strong, retail turnover will keep rising, further fuelling the demand for high quality space among retailers. However, active expansion of the retail chains will continue to be constrained by economic and political instability in the country.

New supply of retail space in 2013 could reach 192,000 sq m over six schemes. Another 320,000 sq m of shopping center space is scheduled for delivery in 2014-2015. Delivery of the planned volume, however, is likely to be delayed, as postponements in construction are very common.

Due to the lack of visible improvements in the economy as a whole and with the upcoming delivery of large volume of new supply, there are no grounds to expect rental growth. As for vacancy, given the fact that the market is still structurally undersupplied, a rapid take-up by retailers of retail space in prime properties is likely to continue throughout the year, keeping the rate of unoccupied space at low levels. In less successful schemes the exposure of vacant space could be protracted, which could lead to a decrease in the average occupancy rate and, as a result, to a possible reduction in rental rates.

# KYIV SHOPPING CENTERS



Source: CBRE

Existing Retail Schemes			
#	NAME	GLA, sq m	COMPLETION/ANNOUNCED DELIVERY
1	Globus	18,600	2001-2002
2	Mandarin Plaza	9,400	2003
3	Arena City	8,000	2005
4	Gorodok	10,000	2003
5	Karavan (Phase I, II, III, IV)	37,900	2003-2008
6	Ukraina	24,000	2003
7	Aladdin (Phase I, II)	10,200	2004-2005
8	Alta-Center	17,000	2004
9	Magelan	22,400	2004
10	Piramida	12,000	2004
11	Promenada Center (Phase I,II)	22,000	2003-2004
12	Bilshovyk (Phase I,II,III)	65,000	2006-2009
13	Plazma	8,800	2006
14	Komod	10,000	2007

Existing Retail Schemes			
#	NAME	GLA, sq m	COMPLETION/ANNOUNCED DELIVERY
15	Arcadia 1	15,800	2007
16	Sky Mall (Phase I,II)	67,000	2007-2010
17	Kvadrat on Perova	19,100	2008
18	Blokbaster	25,500	2008
19	Arcadia 2	18,400	2008
20	Dream Town (Phase I)	41,000	2009
21	Dream Town (Phase II)	45,000	2011
22	Promenada Park (Phase I, II)	43,000	2009-2010
23	Auchan Belichi	17,400	2009
24	Auchan Petrivka	16,800	2008
25	Darnytsya	5,800	2008
26	RayON	24,000	2012
27	Ocean Plaza (Phase I)	72,000	2012
Specialized Existing Retail Schemes			
1	4Room	22,230	2009
2	Araks	28,000	2009
3	Domosphaera (Phase I)	22,300	2009
Retail Schemes Under Construction			
1	Marmelad	38,700	H1 2013
2	Art Mall (Alacor City)	37,000	H1 2013
3	Silver Breeze	16,000	H2 2013
4	Gulliver (Continental/Esplanada)	45,200	H2 2013
5	Atmosphera (Domosphaera Phase II)	30,000	H2 2013
6	Manufactura (outlet centre)	25,000*	H2 2013
7	Kiev E95 Outlet Centre (Phase I)	16,700	H1 2014
8	River Mall	55,000	H1 2014
9	Respublika	135,000	H1 2014
10	Prospekt	41,000	H2 2014
11	Kvadrat Vyrlytsya	73,200	2015

\* - GBA

Source: CBRE

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