MARKET SNAPSHOT
Kyiv Retail Market

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Q1 2015

HOT TOPICS

- Retailers put their expansion plans on hold at least by the end of the year focusing on optimization of their business through cost reduction
- No professional shopping centers were delivered to the market over Q1 2015
- USD-based rental rates declined by 10% q-o-q on average due to further devaluation

PERFORMANCE

In Q1 2015 consumers were dealing with further decline in purchasing power stirred up by accelerated inflation and steep currency devaluation. According to GfK Ukraine, Consumer Confidence Index declined by 10.8 pp during Q1 2014 demonstrating a sizeable drop in consumers' willingness to spend. Weak consumer spending was reflected in a sharp decrease of organized retail turnover (-24.6% y-o-y - Kyiv) during January – March 2015. Retailers' activity continued to mirror a large measure of caution among major occupiers, accompanied by a widespread preference for renegotiating existing leases rather than committing to new space. No professional shopping centers were delivered to the market year-to-date. Hence, the total retail stock in Kyiv remained unchanged at ca. 880,000 sq m as of the end of Q1 2015. Due to active tenant rotation campaigns undertaken by landlords, vacancy in prime shopping centers decreased to 5% - 7% (- 1pp) on average in Q1 2015. However, the situation is more critical in secondary shopping centers with weak fundamentals: vacancy in secondary schemes stood at the range of 10%-12%. In view of further devaluation of national currency in Q1 2015 USD-based rental rates declined by 10% on average. Prime rents varied in the $60 - $100/sq m/month (triple net) range for typical gallery units of 100-200 sq m, while secondary rents stood at the range of $29- $50 sq m/month (triple net).

OUTLOOK

Occupier demand will continue to remain fragile as a result of predictably weak sales by the end of 2015. 360,000 sq of quality retail space under construction is scheduled for delivery within three superregional shopping centers. However, there is high probability that delivery dates will be postponed in view of slow retailer demand. In case of timely delivery of the whole announced volume, average market vacancy will grow, particularly in secondary schemes. At the same time, rising vacancy and abundance of new supply on the market will likely force rents down, especially in lower profile shopping centers.

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