

## Quick Stats

	Change from	
	H2 '11	H1 '11
New supply	↓	→
Rents	→	→
Vacancy	→	→

## Hot Topics

- Kyiv retail sales grew 14.7% on the back of rising households' income
- Slowdown in new supply as a result of delays in the delivery of a number of schemes
- Stabilization of rents

## FUNDAMENTALS

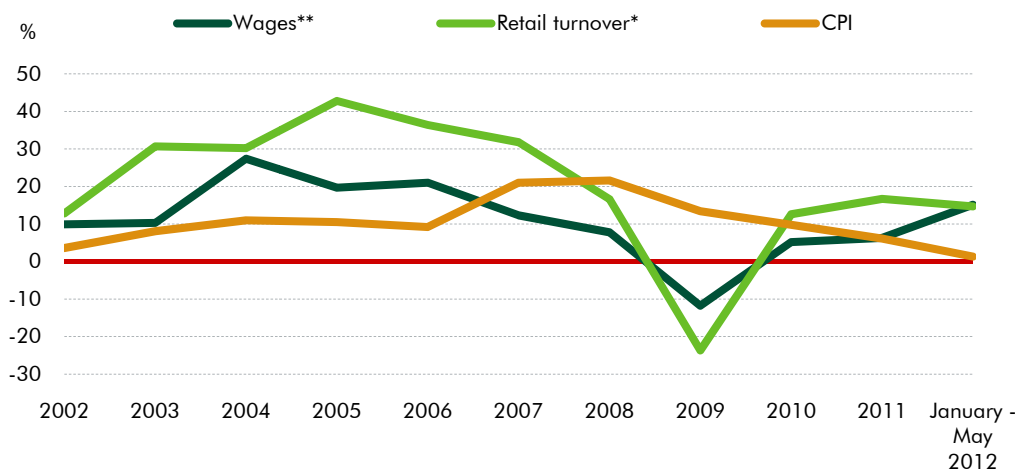
As the crisis in the Euro zone continued to drag on and external demand went down, Ukrainian economy started to lose steam in H1 2012, expanding by only 2% y-o-y in Q1 2012. However, even as the industrial production declined 1.1% y-o-y in March, the overall output was 0.7% larger over January-May 2012 versus the same period a year ago, which may be attributable to some improvements in external conditions. Agricultural output was up by only a moderate 1.5% y-o-y in five months to the end of May due to seasonal factors. Quite erratic growth in industrial sector was compensated by rising consumer demand. As a result of unstable economic situation on external markets, the forecasts for real GDP growth in 2012 were downgraded to 1.3-2.5%<sup>1</sup> y-o-y.

Inflation level was declining for five straight months and by May consumer price index was unusually low at only 1.7% y-o-y.

Record low inflation rate coupled with an upturn in real wages (+15.1% over January-April, 2012) set preconditions for a strong internal demand, which in turn resulted in healthy rates of retail sales in Kyiv (+14.7% over January-May, 2012, y-o-y). Besides, government spending on social benefits has risen, which provides additional support for internal demand and retail sales.

Furthermore, according to the latest research by GfK Ukraine, consumer confidence has recovered after a severe drop in the end of 2011. Thanks to improving economic expectations consumer sentiment index has reached 85.2 points by the end of May, which is the highest indicator in the last two years. Likewise, consumer credit was expanding, spurring retail sector, even though interest rates have also gone up (+2.1%) since the year started.

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



\* - includes organized retail sales only  
 \*\* - real wages in Kyiv over January-April, 2012  
 Source: Kyiv Statistics Office

<sup>1</sup> - Latest forecasts provided by the following organizations: 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

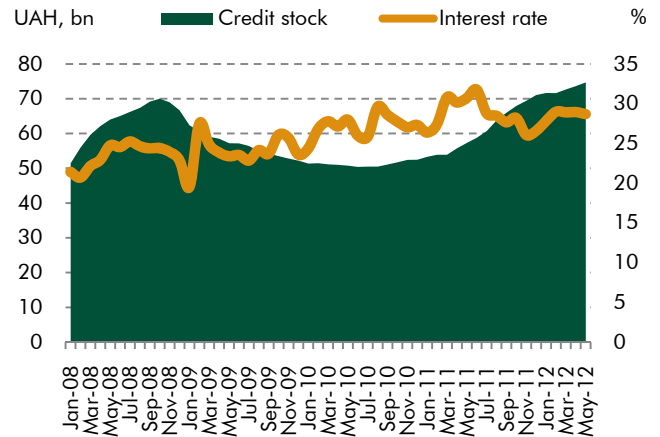
Despite economic complications in H1 2012, rising retail sales and improving consumer sentiment supported moderate demand for retail space among retailers.

Demand for retail space in the groceries segment in H1 2012 came from both national chains (*Fozzy Group, ATB, EKO-market, Retail Group*) and their international counterparts (*Spar, Novus*). Besides, *Amstor*, a company developing a homonymous chain of supermarkets in eastern part of the country, is expected to enter Kyiv market in 2012. The opening of the first *Amstor* supermarkets of 8,000 and 4,000 sq m is planned at three shopping centers: *Gulliver, Marmelad* and *Polyarnyi* shopping centers, scheduled for the delivery in H2 2012. *ATB*, a discounter, and *Silpo*, a local supermarkets chain, are still the leaders in terms of the number of openings. Due to the lack of high-quality retail space, hypermarket chains are expanding slowly and are actively renting space in shopping centers under construction. Highly anticipated is the opening of *Real*, a first hypermarket of the German retailer chain in Kyiv, which will take place in *Ocean Plaza* shopping center. The groceries segment has been recently characterized by retailers exploring new formats. In H1 2012 *Fozzy Group* has launched *Le Silpo*, its new premium-class chain, while *Retail Group* and *Varus* are actively developing a "corner shop" format named *BK-Express* and *Varus-market*, respectively.

The most active players in the fashion retail are the brands of the international chains, such as *Inditex Group* and *L.P.P. SA Group*, Russian chains such as *Sportmaster* and *CentrObuv*, as well as national ones – *MTI* and *ARGO*. Furthermore, new brands in the luxury segment such as *Prada* and *Valentino* entered the market in H1 2012. In the mid-price segment, there were the following openings: *OVS*, Italian apparel brand, *W52 Jeans*, a Portuguese brand, *Kari*, a Russian footwear chain, *lady&gentlemen CITY*, a Russian chain of apparel department stores and *Wojas*, a Polish footwear retailer.

It should be noted, however, that some of the well-known names, such as *Subway*, *Burger King*, *L'Oreal Body Shop* did not enter Kyiv market. Largely, this is due to the fact that franchises find it difficult to meet strict requirement of the mother-company particularly related to the number of new stores to be opened each year. Lack of quality retail space can impede expansion pace, while another reason is that local partners are often short of necessary financial resources.

## 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

## Expected New Market Entries in 2012

MID-RANGE FASHION	FOOTWEAR&ACCESSORIES
Dolce&Gabbana	Camper
Pepe Jeans	Rebeca Sanver
MICHAEL Michael Kors	Longchamp
Recman	Denis
Napapijri	Why Denis
Atelier de Courcelles	
LC Waikiki	
	OTHERS
Max Mara Weekend	Pellini
Meucci	KFC
s.Oliver	Sega Fredo
Okay Multibrand	

Source: CBRE

Still, most retailers declared that they intend to expand in 2012. Having raised their requirements for the quality of space and its location, retail operators are planning to expand mostly in new shopping centers in prime locations and on beneficial leasing terms. As for new openings in H2 2012, most have been announced in the apparel and footwear segment.

## SUPPLY

Despite a substantial volume of retail space scheduled for the delivery in H1 2012, in the end not one shopping center actually opened. Total retail stock<sup>2</sup> is, therefore, unchanged from the previous year and amounts to 590,100<sup>3</sup> sq m. As a developing and unsaturated market, Kyiv has a rather low provision rate of retail space, especially when set against other capitals in Central and Eastern Europe (CEE). Its ratio is only 210 sq m per 1,000 people, which is indicative of growth potential that exists for developers and retailers alike.

<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; 50% of tenant mix should consist of chain retailers.

<sup>[3]</sup> Total retail stock was revised in H1 2012. Historical data was changed accordingly

Because the delivery of *Silver Breeze* mixed-use and that of Phase II of *Domosfera* shopping center has been postponed until Q1 2013, new supply in 2012 has been significantly reduced. Still, in the next six months some 200,000 sq m of quality retail space is projected to enter the market, which is four times the volume delivered over the whole of 2011. Furthermore, a similar amount of space is expected in 2013, reflecting stable development in this segment of real estate market. As of July 2012 there was no less than 540,000 sq m of retail space under construction in Kiev. This new supply is expected to reach the market in 2012-2014. What is remarkable, however, is that retail schemes are increasingly becoming large-scale in format. A good example would be *Respublika* shopping center (GLA – 139,000 sq m), construction of which commenced in H1 2012. It is the largest scheme in Ukraine among both the existing shopping centers and those that are under construction.

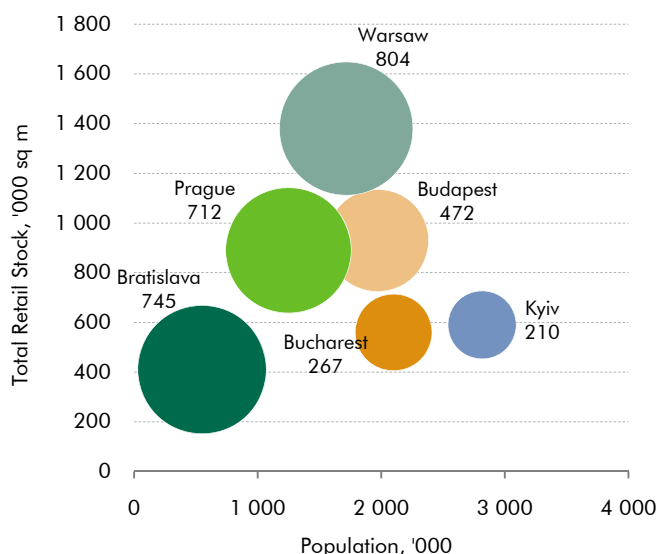
The concept of the most shopping centers under construction features large-scale entertainment section as one of the key anchors, taking up 17-20% on average. This bigger emphasis on entertainment component is explained by increasing competition in retail property market. For example, *Ocean Plaza* shopping center will feature a *HappyLion* theme park (2,400 sq m) as well as an aquarium; *River Mall* shopping center will present an indoor water park (13,000 sq m), the first such venue on the Left (East) Bank; *Respublika* shopping center plans to incorporate a roller coaster, a Ferris wheel, as well as a wind tunnel.

Developers tend to concentrate on traditional shopping center formats. Other types of retail schemes are rare. In fact, there is only one scheme – Phase I of *Kyiv E-95 Outlet Center* – currently under construction and scheduled for the delivery in H1 2013. Furthermore, *ESTA Holding*, a prominent local developer, began the reconstruction of *TsUM*, a landmark central department store. According to the developer's plans once completed in 2014, the scheme will operate as a modern department store.

### VACANCY AND RENTS

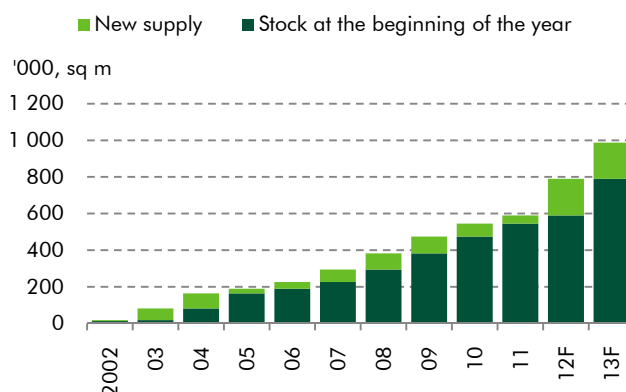
Rental rates have stayed unchanged from last year as the uncertainty about the economic outlook has set in and retailers were expanding only moderately. Prime rents were in the range for \$100-170/sq m/month (triple net) for typical gallery units of 100-200 sq m. Secondary base rents were in the range of \$55-85/sq m/month for gallery tenants.

### Retail Premises per 1,000 Inhabitants in Selected CEE Capitals, sq m



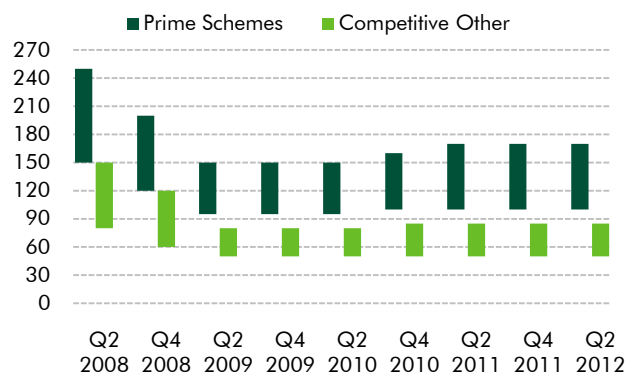
Source: CBRE

### Kyiv Shopping Center Stock\*



F – forecast  
Source: CBRE

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



Source: CBRE

Vacancy rate in prime retail schemes was only 0-2% despite the fact that most retailers did not embark on an aggressive expansion. Less successful shopping centers recorded a slightly higher share of unoccupied space, which was in the range of 3-4%. This discrepancy in vacancy rates between prime and secondary schemes indicates that quality retail space is in high demand.

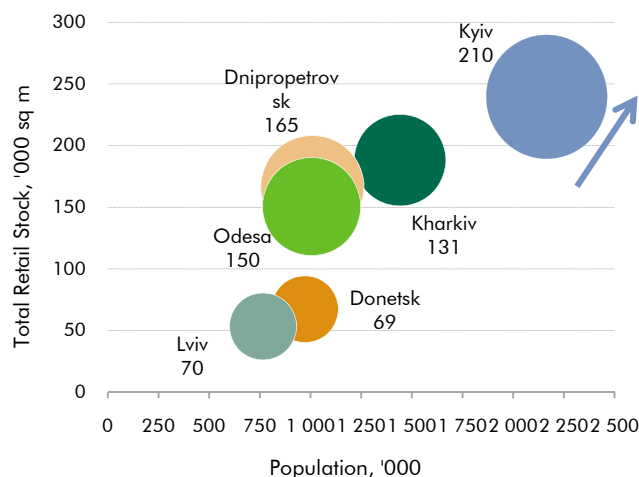
## REGIONS

Rising household incomes and falling inflation have contributed towards a strong performance of retail sales across Ukraine, which grew 15.5% in the first five months of the year. Cities with the population of more than 1 million people are leading in terms of absolute growth of retail sales. The shortage of high-quality retail space in combination with a rising consumer potential in the regional markets are attracting both retail operators and developers.

Indeed, retail chains are considering not only large cities, but also the cities with the population of 300,000-500,000 people. The majority of food retailers (*Fozzy Group, ATB, Ukrainian Retail, Retail Group, Spar, Varus, Tavria-B*) and consumer electronics/write-and-brown operators (*Comfy, Tehnopolis, Foxtrot, Eldorado*) were expanding on the regional markets mostly in eastern and central parts of the country with the highest recorded rates of real income and consumption growth.

Major international apparel chains also continued to expand in the regions. *L.P.P SA*, a Polish retailer, made its debut in Kharkiv, where it introduced all of its brands (*Reserved, Mohito, Cropp Town and House*) within *Magelan* shopping center. It also opened the first *Reserved* store in Rivne (350,000 ppl.) within *Zlata Plaza* scheme and signed the agreement to open all

## Retail Premises per 1,000 People in the Largest Cities of Ukraine



Source: CBRE

four brands in *Fabrika* shopping center in Kherson (350,000 ppl.). In the meanwhile, *New Yorker*, a German chain, opened a store in *Sun Gallery* shopping center in Kryvyi Rih (650,000 ppl.), which is its first store outside of Kyiv. After opening its first store in Vinnytsia, *Inditex Group* is also considering quality locations in smaller towns as part of its expansion strategy in the regions.

Rising retailers' interest in the regional markets is partly associated with growing construction activity there. Indeed, in H1 2012 some 104,000 sq m of space was added to regional retail stock, with Kherson accounting for the more than half of that volume. Developers are promising another 177,000 sq m of space by the end of 2012. Kharkiv boasts the largest amount of retail space under construction among the regions.

## New Retail Supply in the Regions in 2012

Retail Schemes Delivered in H1 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	27,600	2012
Suvorivskiy	Kherson	Oskar	32,000	2012
Meganom (Phase I)	Simferopol	Krymska Developerska Compania	14,600	2012
Future Retail Schemes Under Construction				
City Center (Phase II)	Odesa	GMG Development	21,000	2012
Frantsuzkyi Bulvar (Phase III)	Kharkiv	Aksioma	34,200	2012
Magelan (Phase II)	Kharkiv	Kray Property	27,900	2012
Cascade Plaza (1 фаза)	Dnipropetrovsk	Alef Estate	13,000	2012
Magelan (Phase II)	Simferopol	Krymska Developerska Compania	25,400	2012
Yuzhna Galereya	Simferopol	Arricano Real Estate	19,700	2012
Fabryka (Phase II)	Kherson	Bud House Group	17,500	2012
Lubava	Cherkasy	Bud House Group	18,000	2012

Source: CBRE

Page 4

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Among its highly anticipated schemes are *Frantsuzskiy Boulevard* (GLA – 34,300 sq m) and Phase II of *Magelan* shopping center (GLA – 27,900 sq m). Also noticeable is the level of construction activity in Simferopol, where some 45,000 sq m of space is currently being built.

## YIELDS

Retail property is one of the most promising segments of commercial real estate in Ukraine thanks to its relative stability vis-à-vis other segments. Still, investors now prefer to cut risks and wait-and-see or otherwise put money only in the very prime properties given the current economic uncertainty and limited access to finance. In H1 2012 there were no investment transactions of in the quality segment of the market. In the absence of either clearly good or plainly negative trends in both the economy and on retail real estate market, prime yields were unchanged from the year before at 13%. Should the economy continue to expand at a moderate pace without any significant shocks, yields will most probably be flat in H2 2012 as well.

## OUTLOOK

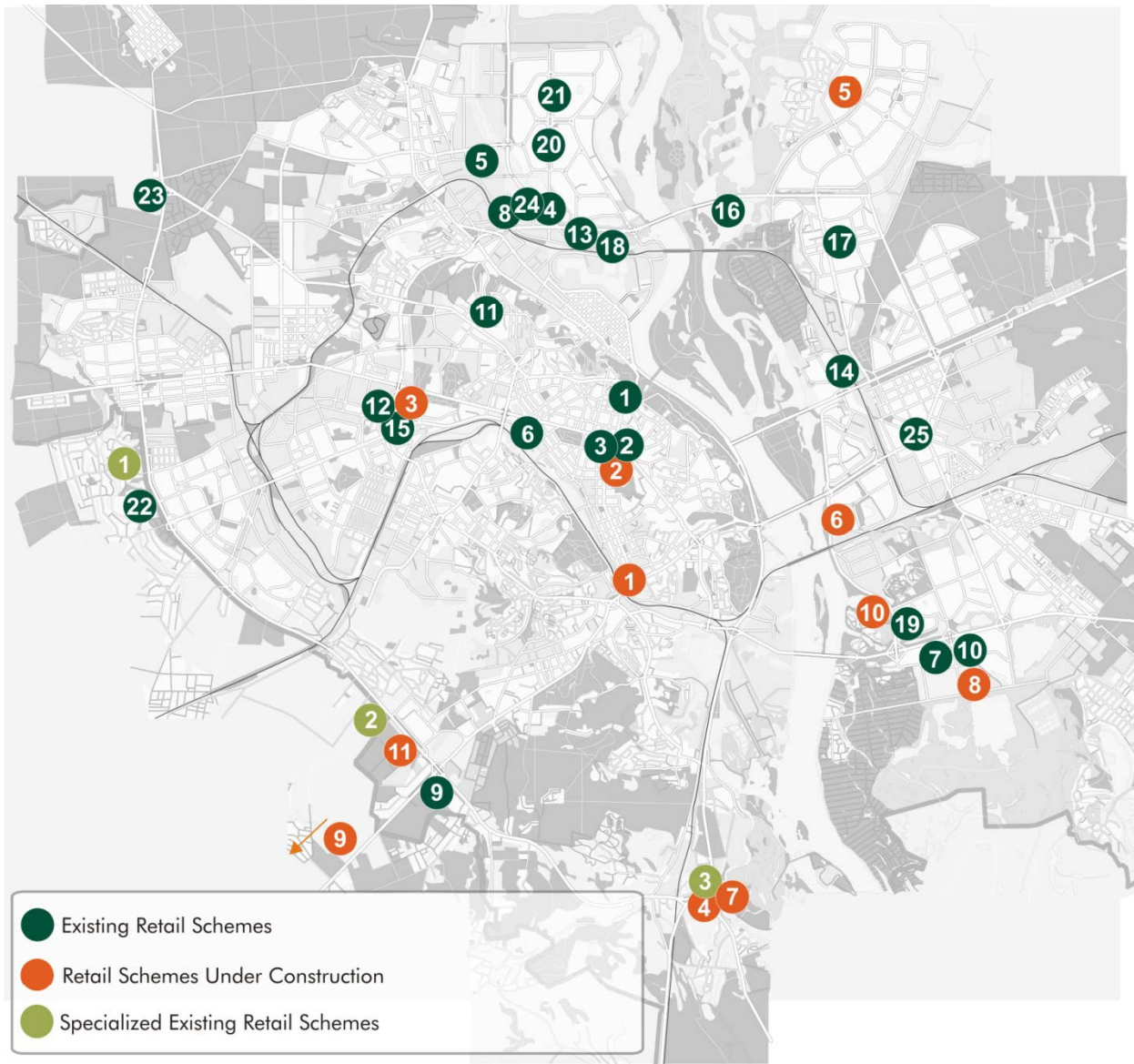
Despite the economic slowdown in H1 2012, the situation in the retail market remained relatively stable. With real incomes rising and social spending growing 9% (as stipulated in the Government budget), we expect consumer demand to remain on the upside until the year end.

Healthy consumer spending should stimulate further expansion of retail chains, which in turn will ensure that demand for retail premises. Indeed, the market-entry of several mid-priced fashion-retail brands is already planned for H2 2012. Retailers, however, will maintain their focus on new schemes in prime locations with competitive concepts.

Despite the postponement of the delivery of some retail schemes until 2013, the supply of new quality retail space in 2012 is forecast to be record high for Kyiv market – about 200,000 sq m. In case of timely delivery of the planned schemes, total professional retail stock will grow by 35%.

Even with such a significant increase in supply, we expect vacancy rate in prime shopping centers to remain low – at about 0-2% – given that the focus on quality space among retailers remains strong. Having said that, we do not see any grounds that would justify the growth in rental rates in the nearest future since retailers do not have truly ambitious plans for expansion. Rental rates, therefore, should stay unchanged in H2 2012, provided macroeconomic environment does not deteriorate.

# 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
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	Ocean Plaza (Phase I)	72,000	H2 2012
2	Gulliver (Continental/Esplanada)	38,000	H2 2012
3	Marmelad	38,700	H2 2012
4	Art Mall (Alacor City)	28,400	H2 2012
5	RayON	22,700	H2 2012
6	Silver Breeze	21,000	H1 2013
7	Domosphaera (Phase II)	30,000	H1 2013
8	Kyiv Mall	75,400	H1 2013
9	Kiev E95 Outlet Centre (Phase I)	15,800	H2 2013
10	River Mall	55,000	H2 2013
11	Respublika	139,000	H1 2014

Source: CBRE

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