

# RESEARCH REPORT

## Kyiv Retail Market

CBRE | Ukraine

PART OF THE CBRE AFFILIATE NETWORK

www.cbre.ua

H1 2014

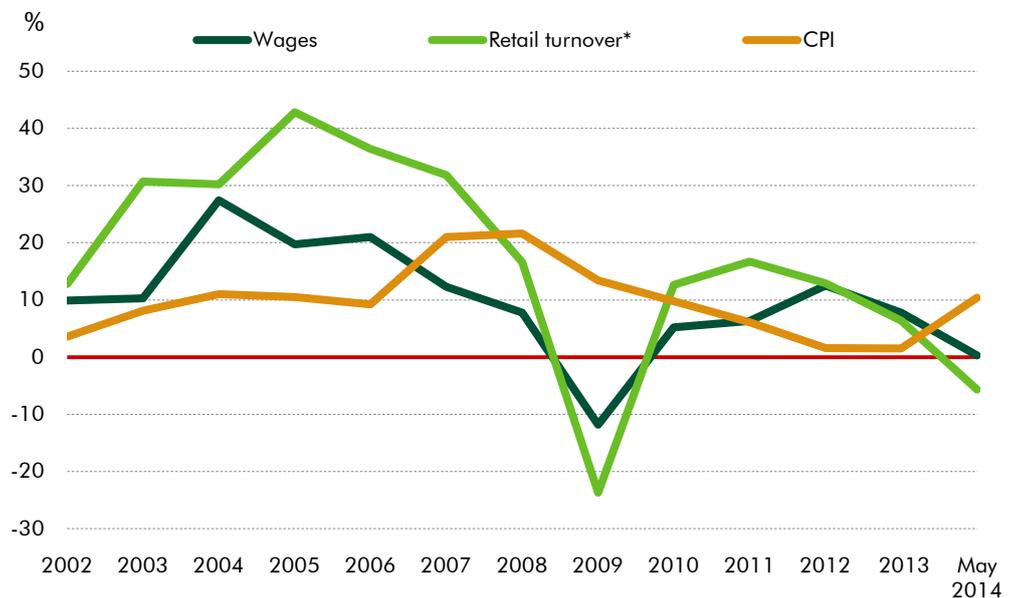
### HOT TOPICS

- Retail sales slump (-5.7% y-o-y - Kyiv) due to a sharp decline in consumer demand
- Moderate growth in new supply (30,000 sq m GLA), with the majority of schemes postponing completion dates until 2015
- Marginal increase in average market vacancy, with prime vacancy standing at 2%-4% range, while vacancy in other shopping centers varied at 8% -10%
- A 20% decline in average rents on the back of weaker occupier demand

### DEMAND

Retail market was the most sensitive to macroeconomic challenges in direct response to contraction of consumer demand. Consumer sentiment demonstrated a downward trend suffering from ongoing tensions in the East along with fundamental economic problems. The annual volume of organized retail turnover weakened markedly over January – May 2014 for the first time since 2009, having decreased by 5.7% y-o-y in Kyiv.

### KYIV WAGES, RETAIL TURNOVER AND CONSUMER PRICE INDEX (% CHANGE, Y-O-Y)



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

Mindful of such issues, retailers put their expansion plans on hold at least until the end of the year by focusing on optimization of their business through cost reduction. The most drastic measure in this respect was market exit or closing of unprofitable shops in order to cut down rent costs which rose dramatically due to currency depreciation. For instance, some retailers (Russian sportswear chain *Bosco Sport*, French footwear brand *Minelli*, American fashion chain *Esprit*, German DIY chain *OBI*, Russian food supermarket chain *Perekrestok*) could not withstand the impact of economic downturn and left the market in the first half of 2014. Other retailers closed those specific units which faced losses either due to a significant drop in sales or, a sharp increase in UAH rent payment or a combination of these two. In particular, fashion retailer *Fiba Retail* closed its two flagship stores of *Marks&Spencer* and *GAP* on *Khreschatyk*, *Delta Sport* closed *Mexx* store, and *Intermoda-Trade* shut down the *Naf Naf* store in the city center. Moreover, luxury retailer *Helen Marlen Group* closed its 4 multibrand stores namely *Passage15 Man*, *Vintage 48*, *Disquared2* and *Helen Marlen 2* in *Passage* on *Kreschatyk* – Kyiv's major luxury street retail destination. Third option used by retailers was contraction of occupied space by 30% - 50% through renegotiation of smaller units with landlords.

PART OF THE CBRE AFFILIATE NETWORK

CBRE

© 2014, Expandia LLC

At the same time a range of retail players were strong enough to open new stores or make expansion announcements for the year despite the subdued consumer sentiment. This is mostly true for food retailers (Auchan, Fozzy Group, Varus, Billa, Eko Market, Amstor, Furshet, Retail Group) and those international retailers from other segments who operate directly without involvement of local franchisees (L.P.P.Group SA, Punto Fa, JYSK, LC Waikiki, McDonalds). For example, Danish company JYSK Holding opened two new stores in Gulliver SEC (700 sq m) and Arkadia SC (850 sq m). Auchan Group announced plans to open a new food hypermarket (11,000 sq m) in Prospect SEC in H2 2014. In the fashion segment Turkish retailer LC Waikiki is planning to open its third store (1,100 sq m) in Sky Mall SEC, while L.P.P.Group SA rented 3,000 sq m space to open all five brands (*Reserved, Mohito, Cropp Town, House, SinSay*) in Prospect SEC, including the new *Sinsay* brand currently not present on Kyiv market. Spanish retailer Punto Fa announced plans to open its first *Mango* megastore (2,500 sq m) in Ocean Plaza in H2 2014.

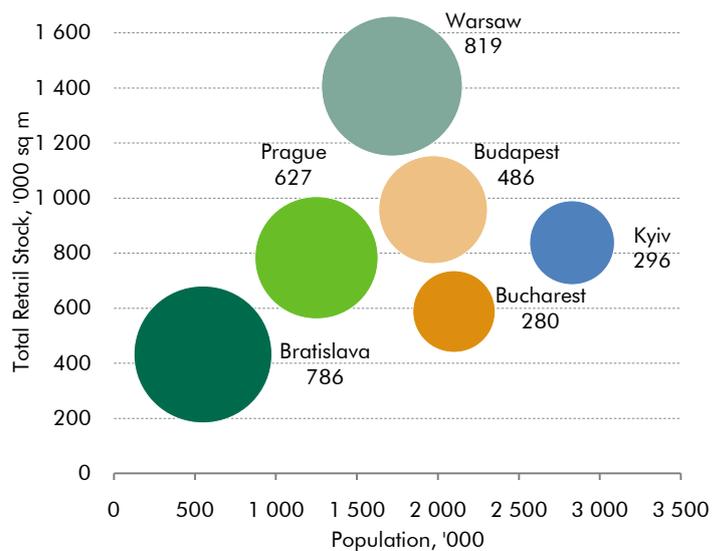
On a further positive note, some new retailers opened their first stores in Kyiv in H1 2014 demonstrating their interest in the market. These brand names include British footwear chain *Keddo*, Spanish mid-range fashion brand *Pedro del Hierro*, Italian underwear chains *Calzedonia* and *Intimissimi*, as well as French bakery *Paul*.

**SUPPLY**

Despite challenging economic environment, a moderate volume of new shopping centre space was commissioned in Atmosphera SEC (30,000 sq m GLA) during H1 2014. Thus the total retail stock reached 838,000 sq m, thereby bringing provision rate of quality shopping centre to 296 sq m per 1,000 ppl. Another notable completion of Prospect SEC (41,000 sq m GLA) is expected to take place in the second half of the year. Hence, the new supply of shopping centers in Kyiv will reach approximately 71,000 sq m by the end of 2014, an 40% decrease compared to the last year's figure.

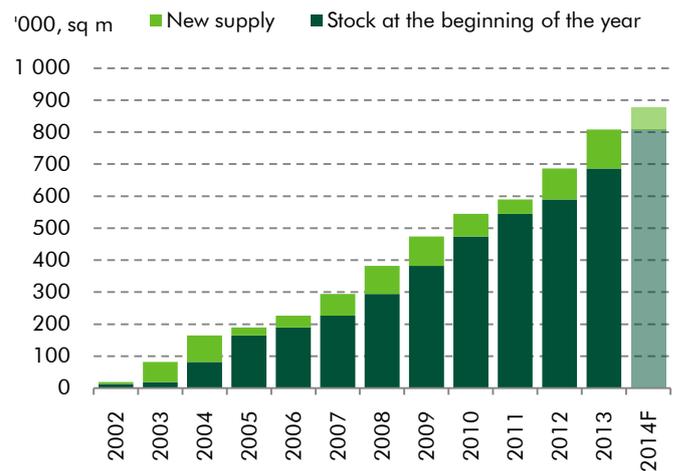
Generally, retail pipeline levels have remained reasonably constant since the beginning of the year; however, the pace of construction activity decelerated considerably in view of limited finance and a weakening occupier demand. Put another way, scheduled delivery dates of some large-scale schemes planned for 2014 such as Respublika (135,000 sq m), Lavina Mall (115,500 sq m), Blockbuster Mall (120,000 sq m) were tentatively postponed till 2015, with the likely deliveries of the latter to going beyond 2015. Nevertheless, development activity continued despite the economic slowdown. Notably, Arricano Real Estate started the construction of Lukyanivka SEC (47,000 sq m GLA) during H1 2014 with completion planned for 2016.

**RETAIL PREMISES PER 1,000 INHABITANTS IN SELECTED CEE CAPITALS IN H1 2014**



Source: CBRE Ukraine

**KYIV SHOPPING CENTER STOCK**



F - forecast  
Source: CBRE Ukraine

**KYIV SHOPPING CENTERS IN PIPELINE IN H1 2014**

Retail Schemes Under Construction in H1 2014		
NAME	GLA, sq m	COMPLETION/ANNOUNCED DELIVERY
Prospect	41,000	H2 2014
Respublika	135,000	H1 2015
Lavina Mall	115,500	H2 2015
Blockbuster Mall	120,300	H2 2015
Retroville	80,450	H2 2015
TSUM	22,500	H1 2016
Lukyanivka	47,000	H2 2016

Source: CBRE Ukraine

## VACANCY & RENTS

Contraction of retailer demand coupled with an increase in supply of retail space was reflected in a slight growth of average market vacancy. Despite the difficult trading conditions prevailing over H1 2014, retailers were still quite interested in operating their stores within the best-performing schemes in the most sought-after locations. Vacancy in prime shopping centers therefore remained low at 2%-4%, albeit posting minor increase compared to the end of 2013 (0%-2%). Less successful schemes were more susceptible to fluctuations in occupier demand: secondary vacancy reached 8% - 10% as of the end of H1 2014.

Given that rental rates are heavily linked to the USD, with payments are made in UAH at the official exchange rate, currency devaluation significantly pushed up the rent costs for occupiers in local currency. Retailers were en masse seeking to negotiate more advantageous lease terms. The majority of landlords have granted their tenants temporary rent reductions in the form of individual discounts or fixing of the UAH/USD exchange rate at an agreed level. As a result, an average 20% decline in rental levels in USD terms was recorded across the board. As of H1 2014, current prime rents varied in the \$80-136/sq m/month (triple net) range for the typical gallery unit of 100-200 sq m. Secondary base rents declined to \$40-68/sq m/month for gallery tenants.

## YIELDS

There were no retail investment transactions completed in Ukraine in H1 2014. In view of economic backdrop stirred up by tensions in the East, investment

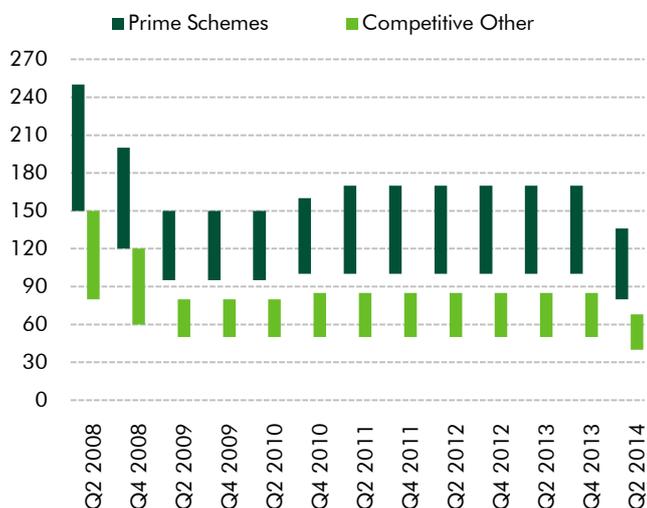
sentiment was exposed to rising uncertainty turned into decreasing willingness to buy risky assets. Foreign investors switched to safer real estate markets while local players were cautious postponing their investment decisions until the situation stabilizes.

Prime notional retail yields inched upwards by 1.0% over the period standing at 13.5% as of H1 2014. However, investors will remain cautious, and there is potential for yields to weaken for as long as there is no clarity with regards to the situation in the Eastern part of the country and the economic situation in general. The long-term expectation is, however, that once significant positive changes to the macroeconomic situation take place and structural reforms start to be implemented, investment activity is expected to accelerate and prime yields will compress.

## REGIONS

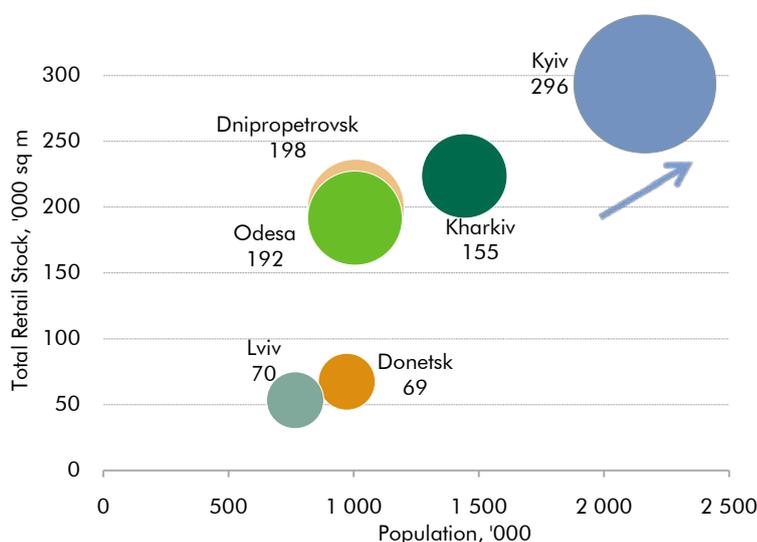
Notwithstanding the impact from the economic downturn and slowing consumer demand in Ukraine, country level data for retail turnover depicted lower drop in retail sales (-0.4% y-o-y) compared to the Kyiv city level (-5.7% y-o-y) during January – May 2014. However, the annexation of Crimea by the Russian Federation in March 2014 had a negative impact on regional performance. For example, a number of national and international retailers exited the Crimea region or postponed their plans for opening for an indefinite time (Inditex Group, JYSK, McDonalds, MTI, Sushiya). At the same time, such international retailers as Auchan and Metro Group continued their operation in Crimea. Moreover, the retail activity in Donetsk and Luhansk all but collapsed, as terrorist groups occupied the regions over the last three months.

## BASE RENTS IN KYIV (USD/SQ M/MONTH)



Source: CBRE Ukraine

## RETAIL PREMISES PER 1,000 INHABITANTS IN UKRAINIAN LARGEST CITIES IN H1 2014



Source: CBRE Ukraine

Protracted tensions put severe pressure on consumer expectations which in turn reflected in retailer caution. Nonetheless, some retail operators expanded their chains in safer regions by taking advantage of securing good locations and negotiating favorable lease terms in regional shopping centers. For example, Danish company JYSK was actively expanding by opening three new stores in Nasha Pravda SC in Dnipropetrovsk, Dafi SEC in Kharkiv and Kvartal SC in Vinnytsia. National retailer MTI opened its new footwear multibrand stores *Intertop Outlet* in Kharkiv, Donetsk and Odesa. Polish retailer L.P.P. SA, opened its first three stores of new brand *Sinsay* in King Cross Leopoli SEC in Lviv, Port City SEC in Lutsk and Phase III of Karavan SEC in Dnipropetrovsk. Multiplex holding, cinema operator, opened its 3,700 sq m multiplex cinema within Phase III of Karavan SEC in Dnipropetrovsk.

In terms of development activity, several remarkable openings were recorded in the regional markets in the first six months of 2014. New supply in H1 2014 reached 142,000 sq m of leaseable retail space, with 67% of new additions accounting for extensions of operating shopping centers. Those extensions strengthened the anchor mix adding an entertainment component in case of Phase III of Karavan SEC in Dnipropetrovsk, while for other properties the extension meant an increase in scale of retail gallery (Phase II of Pivdenna Galereya in Simferopol) or both factors simultaneously (Phase II of Meganom SC in Simferopol and Phase II of City Center in Odesa).

Phase II of Rose Park SEC in Donetsk developed by Immochan Ukraine primary scheduled on H2 2014 was postponed due to the ongoing tensions in Donetsk region. Heading into 2015, approximately 204,000 sq m of retail schemes currently under construction are scheduled for delivery over the next year. The development pipeline is concentrated in Tier-1 cities with 40% of space under construction within two shopping centers (Forum Lviv – 36,000 sq m GLA, Leopoli – 44,500 sq m GLA) both located in Lviv.

## OUTLOOK

2014 will remain a difficult year for consumers and retailers alike, although consumer demand is expected to recover later in the year. In line with business optimization strategy, retailers are likely to focus on the stores they already have, with little chance for expansion. Retailer activity in terms of expansion and market entry is expected to be renewed in 2015 with stabilization of the socio-political situation and strengthening of consumer demand.

As a result of postponing the delivery dates of the majority of shopping centers scheduled for 2014, forecast completion figures for the year were revised downward from unprecedented 475,000 sq m to 71,000 sq m. As a result, approximately 450,000 sq m of quality shopping centers currently under construction is planned for delivery in 2015, although this figure is highly doubtful. Another 70,000 sq m is currently scheduled for 2016. Concerns arise as to whether the economy will be strong enough to support such a tremendous growth in supply given the current slump in consumer demand that is translated into a curtailed demand from occupiers.

## KEY RETAIL SCHEMES IN 2014-2015 IN UKRAINE

Retail Schemes Delivered in H1 2014				
NAME	CITY	DEVELOPER	GLA, sq m	COMPLETION/ ANNOUNCED DELIVERY
Karavan (Phase III)	Dnipropetrovsk	DCH	10,200	H1 2014
Pivdenna Galereya (Phase II)	Simferopol	Arriano Real Estate	19,700	H1 2014
Port City 2	Lutsk	Investytsii i rozvitie	26,000	H1 2014
Meganom (Phase II)	Simferopol	Krymska Developerska Compania	45,000	H1 2014
City Center (Phase II)	Odesa	Local developer	21,000	H1 2014
City Center Kotovskiy	Odesa	Local developer	20,100	H1 2014
Future Retail Schemes Under Construction				
Rose Park (Phase II)	Donetsk	Immochan Ukraine	32,500	H1 2015
Yessa	Odesa	Bud House Group	39,000	H2 2015
Forum Lviv	Lviv	Multi Development/Bud House Group	36,000	H2 2015
Leopoli	Lviv	Local developer	44,500	H2 2015
Nikolskiy	Kharkiv	Bud House Group	52,000	H2 2015

Source: CBRE Ukraine

In the near term, Kyiv prime rents are expected to remain stable unless the economy deteriorates further and regional conflict in the East drags on. Nevertheless, the existing shopping centers are likely to face some rotation process, with properly designed retail schemes in competitive location expected to maintain relatively high occupancy. At the same time, moderate vacancy growth in the secondary segment is more likely, as occupiers aim close unprofitable units in less successful locations. As a result, further decline in rental rates among secondary property should not be ruled out.

## 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.

For more information regarding the Market Review, please contact:

## CONTACTS

### CBRE | Ukraine

Expandia LLC

4 M. Hrinchenka St.,  
Kyiv 03680

t: +38-044-390-00-00

e: [ukraine@cbre.ua](mailto:ukraine@cbre.ua)

**Sergiy Sergiyenko**

Managing Partner

e: [sergiy.sergiyenko@cbre.ua](mailto:sergiy.sergiyenko@cbre.ua)

**Maryna Gavrylenko**

Head of Research

e: [maryna.gavrylenko@cbre.ua](mailto:maryna.gavrylenko@cbre.ua)

**Kira Pruglo**

Consultant

e: [kira.pruglo@cbre.ua](mailto:kira.pruglo@cbre.ua)

## DISCLAIMER 2014 CBRE

Information herein has been obtained from sources believed to be reliable. While we do not doubt its accuracy, we have not verified it and make no guarantee, warranty or representation about it. It is your responsibility to independently confirm its accuracy and completeness. Any projections, opinions, assumptions or estimates used are for example only and do not represent the current or future performance of the market. This information is designed exclusively for use by Expandia LLC|Part of the CBRE affiliate network clients, and cannot be reproduced without prior written permission of Expandia LLC|Part of the CBRE affiliate network.

© Copyright 2014 Expandia LLC|Part of the CBRE affiliate network