RESEARCH REPORT
Kyiv Retail Market

CBRE | Ukraine

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2013

HOT TOPICS

- Stable occupier demand, with existing retailers still expanding their network and new players entering the market
- Substantial volumes of new supply, a 30% increase on the annual basis
- Low vacancy in prime shopping centers along with increased vacancy in secondary shopping centers
- Broadly stable rental rates throughout 2013, with expectation of marginal rent decreases in secondary locations due to large volumes of forecast completions

FUNDAMENTALS

The economic and political uncertainty prevailing over the course of 2013 weighed heavily on all sectors of the domestic economy. As a result, real GDP contracted by 1.1% y-o-y in Q1 2013 and slowed down even further in Q2 and Q3 of 2013 by posting 1.3% y-o-y drops respectively. The effects of the restrained, external demand resulted in weakened industrial output. According to official statistics, industrial production declined by 4.7% y-o-y during the year. Amid the generally gloomy economic statistics, agricultural production advanced by 13.7% y-o-y for the same period. Encouragingly, consumer spending showed positive dynamics thereby supporting the retail sector. According to preliminary estimates of the State Statistics Committee, the figures of real GDP growth for the year-end are expected to vary around 0%, although Q4 data are very questionable and may be subject to further adjustment following change of government. According to the latest forecasts by leading international and government organizations[1], the economy is forecast to grow at 1%-2% in 2014. At the same time, inflation is expected to accelerate slightly by the end of 2014 but should remain in the range of 1%-3.5% y-o-y (CPI).

With economic fundamentals remaining subdued, organized retail turnover in Kyiv was still growing at a moderate pace due to the extremely low inflation for the second consecutive year (CPI +0.5% y-o-y) and moderately growing real wages (+7.8% y-o-y) over 2013. However, the retail turnover growth pace displayed a declining trend, slowing down from +12.9% y-o-y in 2012 to +6.4% y-o-y in 2013. Consumers continued to exercise caution in their spending habits in view of the uncertain economic and political climate, which in turn may cause retail sector growth to decelerate further.

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

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

[1] - based on the latest forecast from the following organizations: EBRD, Oxford Economics, The World Bank, Cabinet of Ministries of Ukraine, Ministry of Economic Development and Trade of Ukraine, National Bank of Ukraine

DEMAND

Occupier demand was stable during the year, with major international and domestic players still expanding. Their approach to expansion is, however, one of cautiousness, with both existing and new players actively screening the market for the most sought-after locations.

The food-retailers expansion continued undiminished with existing operators searching for blind spots in their networks, particularly in the central part of the city where their presence is fairly limited. Notably, *Billa*, the Austrian supermarket chain, opened two supermarkets in the Globus prime shopping center (1,000 sq m) and the Toronto mixed-use scheme (700 sq m) in the city center as well as five stores within more distant residential districts. *Furshet Gurman*, a national chain of premium supermarkets, was reallocated from the Mandarin Plaza prime mixed-use complex into the newly delivered Gulliver mixed-use prime scheme extending the floor space up to 8,000 sq m. At the same time, Fozzy Group, the national food retailer, opened its first premium supermarket, *Le Silpo* (1,500 sq m), in Kyiv in place of *Furshet Gurman* within the above-mentioned Mandarin Plaza mixed-use complex. Another prominent event in the segment of Cash&Carry was the opening of the first hypermarket of Fozzy Group in Kyiv – *Fozzy Cash&Carry* (10,000 sq m) – within the SEC (shopping and entertainment center) Art Mall. The hypermarket chains demonstrated a strong commitment to the retail space in modern shopping centers currently under construction. Auchan Group, the French retailer, announced their plans to open two *Auchan* hypermarkets in Prospekt SEC and Respublika SEC during the next year.

The fashion sector saw a shift with large international brands extending their surface requirements by 20-30% on average. For instance, the mid-range Spanish retailer, Punto Fa, started the operation of the *Mango* store chain on the Ukrainian market without the involvement of a franchisee partner this year and decided to extend the space of one store from 250-300 sq m to 400 sq m, sometimes reaching 800 - 1,200 sq m. The Spanish fashion-giant retailer, Inditex Group, increased its requirements for rentable space from 400-500 sq m to 700-1,000 sq m, on average, for one store. Additionally, the store area leased by Polish retail operator L.P.P. SA rose from 250-350 sq m for *House, Mohito* and *Cropp Town* to 350-500 sq m and from 800 sq m to 1,100 sq m for *Reserved*.

Epicentr, the national leading player, increasingly centralized the DIY sector due to recent acquisition of *Nova Linia*, the national chain of 16 DIY supermarkets. A notable phenomenon in the DIY sector is the limited presence of international retailers. International chains of DIY stores such as *Praktiker* and *OBI* announced their exit from the market in the forthcoming months mostly due to highly monopolized market conditions in the segment and financial obstacles. Meanwhile, the French DIY operator, *Leroy Merlin*, opened the second hypermarket in Kyiv during 2013.

Several new retail operators entered the market during 2013: the kids fashion chains, *Petit Bateau* and *Z-Generation*; the apparel and equipment for travelers chain, *Jack Wolfskin,* and sportswear chain, *Nautica*; the underwear, clothing and beachwear chain, *Yamamay*; the luxury&business chains, *Marni, Boggi,* and *Hublot, DKNY MEN, Versace Collection* and *Zadig&Voltaire*; the WB&E chains, *Samsung* and *Lenovo*; the *Cinnabon* coffee shop chain, *Texas Chicken* fast-food restaurant, and others.

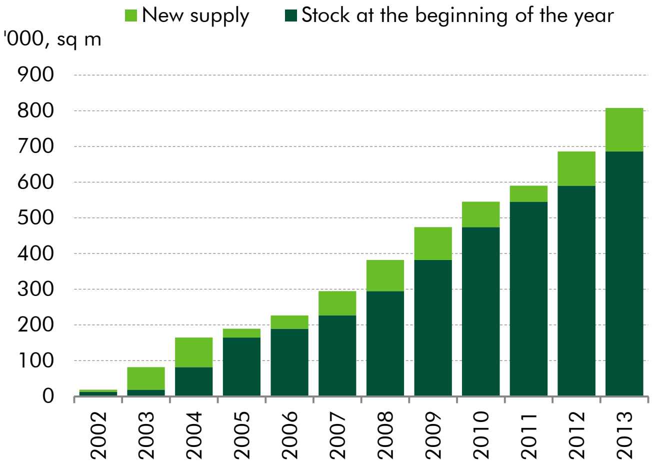
Another remarkable trend is a growing importance of multichannel retailing as the Ukrainian online shoppers have become much more active buying through the Internet mostly consumer electronics and computer equipment, clothing, cosmetics and accessories. Some store-based retailers have started to understand the need of an online presence: food supermarket chains *Novus* and *Tavria V*, as well as the majority of W&B national operators such as *Foxtrot, Comfy* and *Eldorado*, and the Russian operator, *Letual,* in the

MAJOR RETAIL MARKET NEW ENTRIES IN 2013

MID-RANGE FASHION	LUXURY&BUSINESS
Jack Wolfskin	Versace Collection
Nautica	Marni
Yamamay	Hublot
Z-Generation	Boggi
Petit Bateau	DKNY MEN
OTHERS	**LUXURY&BUSINESS**
Cinnabon	Zadig & Voltaire
Texas Chicken	Cesare Paciotti Home
Samsung	Style Avenue
Lenovo	

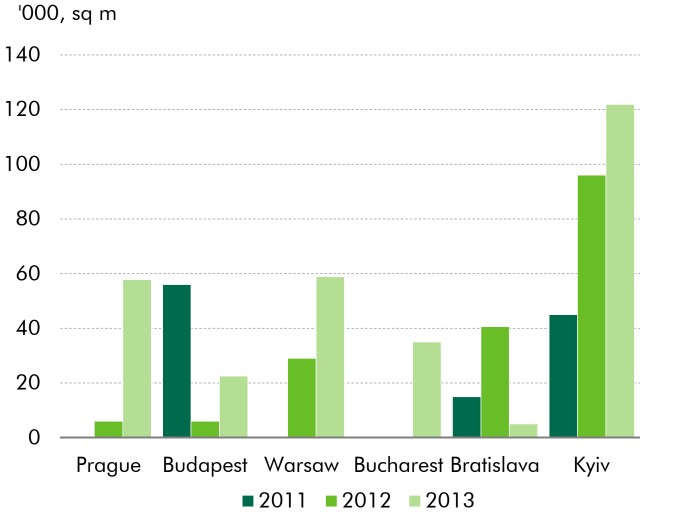
Source: CBRE

KYIV SHOPPING CENTER STOCK



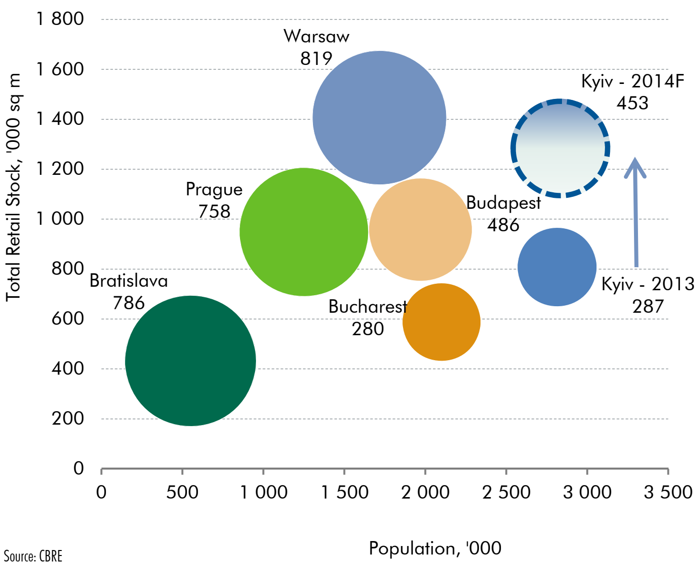
Source: CBRE

ANNUAL DEVELOPMENT COMPLETIONS IN SELECTED CEE CAPITALS



Source: CBRE

RETAIL PREMISES PER 1,000 INHABITANTS IN SELECTED CEE CAPITALS IN 2013



Source: CBRE

health&beauty segment, have already launched their websites in order to capture the additional revenue. However, the e-commerce revolution still has a long-run perspective having very minor effects on occupier demand for retail space as of today.

SUPPLY

Despite the fairly limited volume of new supply over the first half of the year (5,500 sq m GLA - Phase I of Marmelad SC), a series of notable completions were recorded on the market in the second half of 2013. With the delivery of the shopping center within the mixed-use scheme, Gulliver (45,200 sq m GLA) and Silver Breeze (16,000 sq m GLA), as well as the Art Mall shopping center (37,000 sq m GLA) and the first outlet centre, Manufactura (18,200 sq m GLA), new supply reached approximately 121,900 sq m by the end of 2013, which was 30% higher compared to the previous year's figure. As compared to some selected capitals of CEE countries, Kyiv preserved the leading position in terms of volume of new supply during the last two years of providing retailers with more opportunities to expand. Still, scheduled completion dates of Phase II of Marmelad SC (33,200 sq m GLA) and Atmosphera SC (30,000 sq m GLA) were postponed to the next year. As a result, Kyiv's shopping center stock increased by 20% over the year and amounted to 808,000 sq m of professional retail space.

The aggregate shopping centre development pipeline continued the growing trend on the back of relative stability of the retail sector vs. other sectors. The increase in pipeline volumes was mostly due to three, large-scale schemes commencing construction during the year including Lavina Mall (115,000 sq m GLA), Blockbuster Mall (120,000 sq m GLA) and Retroville (77,500 sq m GLA). Additionally, active reconstruction of TSUM (central department store) started in the central part of the city in 2013. So far, 475,000 sq m of quality retail space within six shopping centers currently under construction is scheduled for completion in 2014, which is the highest annual level of forecasted completions ever recorded on the market.

In the event of timely delivery of the entire announced volume, the provision of modern retail space is expected to rise considerably from 287 sq m per 1,000 ppl. to 428 sq m per 1,000 ppl. in 2014. Even though low market saturation retained significant market potential for further developments, the competition in the city is gradually increasing. As a result, developers of existing schemes announced only some preliminary plans for extension of existing assets to make them more attractive for occupiers and visitors alike.

For example, the projects of the existing Sky Mall SEC (67,000 sq m GLA – Phase I, II) and Ocean Plaza (72,000 sq m GLA – Phase I) envisage the construction of additional phases in order to increase its competitive advantages in the more competitive environment in the future. At the same time, refurbishments of existing schemes are rare on the market. It will take time to translate rising competition into developer's decisions for refurbishments and repositioning of existing, less successful shopping centers. Quite the contrary, the developers of new retail schemes tend to stay in line with changing trends on the market through strong positioning and effective, unique concepts including a large entertainement&leisure component and a food-court zone, looking to extend the dwelling time of shopping center visitors.

VACANCY & RENTS

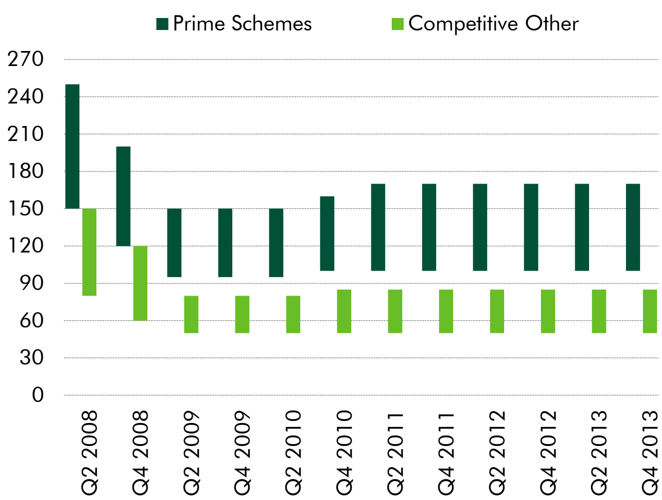
New supply of prime retail premises within the prime, mixed-use Gulliver (45,200 sq m GLA) was counter-balanced by robust demand at the prime end of the market allowing vacancy in prime schemes to remain at the notional level of 0%-2% over 2013. In view of large volumes of development completions, vacancy in the secondary segment moderately increased, however, ranging between 6%-8% in the end of the year.

Rental growth was hovering around zero maintaining stability of rental rates over the year. Prime rents in professional shopping centers stood in the range of \$100-\$170/sq m/month (triple net) for the typical gallery unit of 100-200 sq m. Rental rates in other shopping centers varied between \$55 and \$85/sq m/month for gallery tenants.

YEILDS

The investors demand for retail properties still restrained focusing almost entirely on the most prime opportunities. The 2013 year has not brought any significant changes to the investment activity on Ukraine's market. According to the available data, only one investment transaction was recorded during the year with DCH IMMO Limited, part of DCH Group (local company), acquiring a stake in Karavan Real Estate Limited, the management company of Karavan shopping centers network. Details of the transaction are not available. A development transaction took place on the regional market with the Ukrainian developer, Bud House Group, completing the purchase of minority interest in Forum Lviv SEC (36,000 sq m GLA) in Lviv from Multi Development Ukraine.

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



Source: CBRE

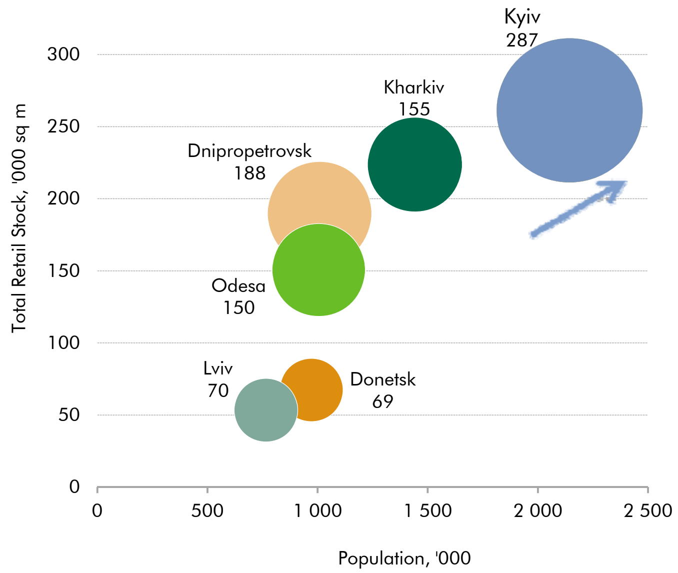
TYPICAL LEASE TERMS IN KYIV SHOPPING CENTERS

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 a common market practice, but a turnover rent or mixed type rent (base or % of turnover, whichever is higher) can be applied for anchor tenants/major international retailers with significant market power.
Rent escalation/Rent review	Rental rates are linked to the USD, but the payment is made in UAH at the NBU exchange rate with monthly adjustment. Indexation is carried out annually or in line with inflation rates of the contract or at a fixed rate of 3-10%.
Tenant's security	The tenant must provide a deposit or a bank guarantee for an amount equivalent to from one to three months' rent.
Service charge	Service charges generally cover repair 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	The owner provides a new tenant rent free period for 45-120 days for internal finishing work.
Lease length	Lease contract is usually for a period of up to 3 years. For anchor tenants lease term can be up to 10-15 years.
Repairing liability	The landlord usually undertakes repairs of the structure, common areas and roof. All internal maintenance/repairs is tenant's responsibility.

Source: CBRE

Foreign investors are still not actively considering Ukraine as a viable investment market and continue to follow risk aversive strategies favoring stronger economies. With a weak economic outlook in the near term, the investment market is bound to remain relatively quiet. In the absence of further deterioration of the economic environment, prime [notional] yield for retail properties will stay flat at 12.5%.

RETAIL PREMISES PER 1,000 INHABITANTS IN UKRAINIAN LARGEST CITIES IN 2013



Source: CBRE

REGIONS

Domestic and international retailers continued to expand on the regional market, despite the fact that the retail turnover growth pace slowed down to 5.6% y-o-y and consumer confidence weakened slightly. Fuelled by low provision of modern shopping center stock and limited competitive pressure, the demand for retail space, therefore, stayed stable with the most active players willing to secure the most attractive locations within new, modern shopping centers in the regional cities. Retailers continued to broaden their presence through entering new regional cities with populations above 300,000+ people.

In the food segment, after a remarkable opening of the first *Auchan* hypermarket in Riviera Shopping center in Odesa, in place of *Real* in the first half of the year, Auchan Group committed for 10,000 sq m within Phase I of Pivdenna Galereya in Simferopol and scheduled for opening in 2014. National food retailer, *Amstor*, opened its first supermarket in Dnipropetrovsk (2,300 sq m) with two supermarkets planned for delivery in 2014. The Danish company, JYSK Holding, operating in the home appliances segment, doubled the number of *JYSK* stores in operation from 10 to 20 during the year; seven out of ten were opened in the regional cities predominantly in quality shopping centers.

KEY RETAIL SCHEMES IN 2013-2015 IN UKRAINE

Retail Schemes Delivered in 2013				
NAME	CITY	DEVELOPER	GLA, sq m	COMPLETION/ ANNOUNCED DELIVERY
Lubava	Cherkasy	Bud House Group	18,000	2013
Fabrika (Phase III)	Kherson	Bud House Group	10,600	2013
Fabrika (Phase IV)	Kherson	Bud House Group	11,400	2013
Frantsuzkyi Bulvar (Phase III)	Kharkiv	Aksioma	34,200	2013
Avrora	Zaporizhya	Aurora Development	20,000	2013
Port City	Mariupol	Investytsii i razvitie	52,000	2013
Pravda	Dnipropetrovsk	Alef Estate	12,500	2013
Manufactura	Sumy	Local developer	20,000	2013
Future Retail Schemes Under Construction				
Karavan (Phase III)	Dnipropetrovsk	DCH	10,000	2014
Pivdenna Galereya (Phase II)	Simferopol	Arricano Real Estate	19,700	2014
Meganom (Phase II)	Simferopol	Krymska Developerska Compania	45,000	2014
Rose Park (Phase II)	Donetsk	Immochan Ukraine	32,500	2014
City Center (Phase II)	Odesa	Local developer	21,000	2014
City Center Kotovskyi	Odesa	Local developer	20,100	2014
Yessa (Zebra)	Odesa	Bud House Group	37,500	2015
Forum Lviv	Lviv	Multi Development/Bud House Group	36,000	2015
Leopolis	Lviv	Local developer	44,500	2015
Nikolskyi	Kharkiv	Bud House Group	52,000	2015

Source: CBRE

In the fashion segment, large chain retailers were focused on the newly-delivered and pipelined, professional shopping centers. For example, Polish retailer L.P.P. SA opened its first stores (*Reserved*, *Cropp Town*, *House* and *Mohito*) in the new shopping center, Manufactura, in Sumy and Port City in Mariupol. They also secured 2,800 sq m of retail premises within Phase II of Rose Park SEC in Donetsk and 2,300 sq m within Phase II of Meganom SEC for opening of all four brands in 2014. German retail operator, *New Yorker*, leased approximately 1,000 sq m in Phase II of Rose Park SEC in Donetsk, which will be the second regional store of retailer in the country.

The apparently rising occupier's interest in the regional markets was supported by healthy levels of new supply in 2013. The annual development completions amounted to approximately 178,700 sq m, 40% up compared to the same period last year. The only new additions in the cities with populations over 1 million ppl. were the Phase III of Frantsuzkyi Bulvar SEC (34,200 sq m GLA) in Kharkiv and Pravda SC (12,500 sq m GLA) in Dnipropetrovsk. In the second-tier cities (with populations in excess of 300,000) the most notable deliveries were Port City SEC (52,000 sq m GLA) in Mariupol, Manufactura SEC (20,000 sq m GLA) in Sumy, Aurora SC in Zaporizhya (20,000 sq m GLA), Lubava SEC (18,000 sq m GLA) in Cherkasy and Phase III and IV of Fabrika SEC (22,000 sq m) in Kherson. Deliveries of the City Center Kotovskyi and Phase II of City Center in Odesa, as well as Phase II of Meganom SEC, and Phase II of Pivdenna Galereya SEC in Simferopol have been postponed until 2014.

Additionally, among the striking events on the regional market was the beginning of active construction of Forum Lviv (36,000 sq m) and Leopolis SEC (44,500 sq m) in Lviv, where the provision of modern retail space is among the lowest compared to other large cities of Ukraine. Moreover, another important construction start included Nikolskyi SEC (52,000 sq m GLA) in Kharkiv and Yessa (37,500 sq m GLA) in Odesa. As a result, 318,300 sq m of quality retail space is planned for delivery during 2014-2015. The development activity is seen to stay strong with several new developments announced for beginning of construction over 2014. For instance, Ukrainian developer Bud House Group has plans for commencing construction of Fabrika 2 SEC (57,000 sq m GLA) in Zaporizhya, while international developer, Immochan, announced the construction start of a shopping center (40,000 sq m GLA) in Odesa during 2014.

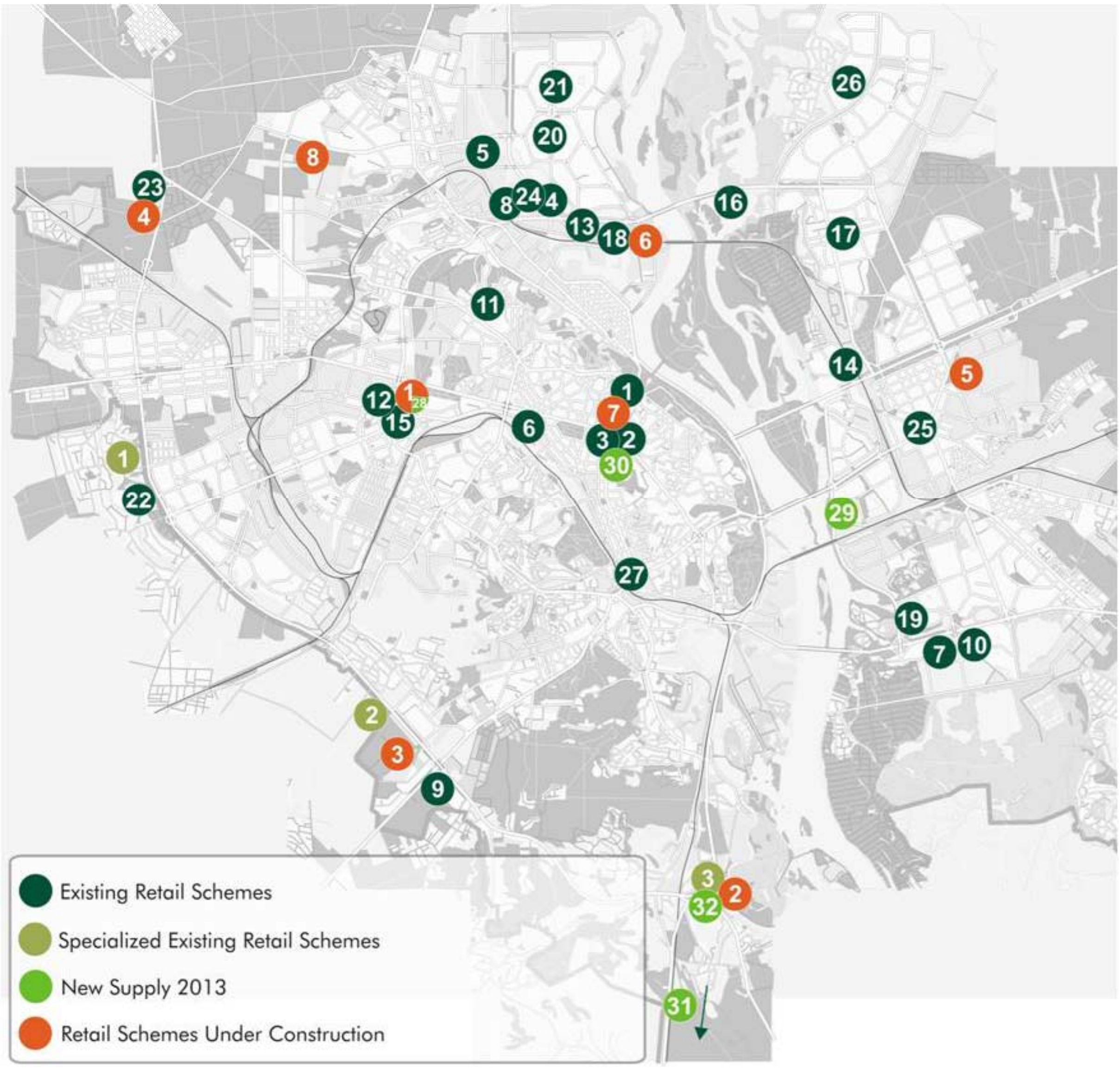
OUTLOOK

As 2014 is setting in, the retail sector increasingly depicts mixed signals about the health of the market. Despite a decrease in consumer confidence over the year as a result of economic recession and tapering political crisis, consumer demand proves to be resilient with stable consumption over all. In turn, the existing retailers are expected to proceed cautiously about expansion, however, retaining strong demand for the best quality retail space.

The positive aspect for the domestic retail property market is the persistent increase in development activity. 405,000 sq m of modern retail space in six retail schemes is announced for delivery over 2014. Approximately 100,000 sq m of new shopping centers currently under construction is expected to enter the market in 2015. The delivery of such significant volume of new additions will provide existing retailers with more opportunities to extend the store network. Moreover, rising availability of quality retail premises is expected to stimulate the cross-border entry activity among new, international chain retailers. At the same time, delays for some projects are, however, likely due to limited financing and a highly unviable economic outlook.

Due to the record high amount of forecasted completions, the average vacancy is forecast to increase, while availability of retail space in prime schemes is likely to stay close to zero in 2014. Sustained demand from retailers for prime retail space accompanied by large amounts of forecasted completions will prevent rental growth for prime space, preserving the level seen in 2013. On the other hand, due to the increasing competition in the sector, the level of occupier demand between prime and secondary shopping centers will widen, which in turn will trigger the average rental rate to decelerate in the secondary schemes with less successful, outdated concepts. As a result, refurbishments and repositioning of such schemes will become a more and more evident trend in view of rising requirements of shopping centers for visitors and retailers alike coupled with increasing, future competition in the sector.

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	Blokbuster	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
28	Marmelad (Phase I)	5,500	2013
29	Silver Breeze	16,000	2013
30	Gulliver (Continental/Esplanada)	45,200	2013
31	Manufactura (outlet centre)	18,200	2013
32	Art Mall (Alacor City)	37,000	2013
Specialized Existing Retail Schemes			
1	4Room	22,230	2009
2	Araks	28,000	2009
3	Domosphera (Phase I)	22,300	2009
Retail Schemes Under Construction			
1	Marmelad (Phase II)	33,200	H1 2014
2	Atmosphera (Domosphera Phase II)	30,000	H1 2014
3	Respublika	135,000	H2 2014
4	Lavina	115,500	H2 2014
5	Prospekt	41,000	H2 2014
6	Blockbuster Mall	120,300	H2 2014
7	TSUM	22,500	H1 2015
8	Retroville	77,450	H1 2015

Source: CBRE

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.

CONTACTS

For more information regarding the Market Review, please contact:

CBRE | Ukraine
Expandia LLC
26 I. Fedorova St.,
Kyiv 03680
t: +38-044-390-00-00
e: ukraine@cbre.ua

Sergiy Sergiyenko
Managing Partner
e: sergiy.sergiyenko@cbre.ua

Maryna Gavrylenko
Head of Research
e: maryna.gavrylenko@cbre.ua

Kira Pruglo
Research Analyst
e: kira.pruglo@cbre.ua