

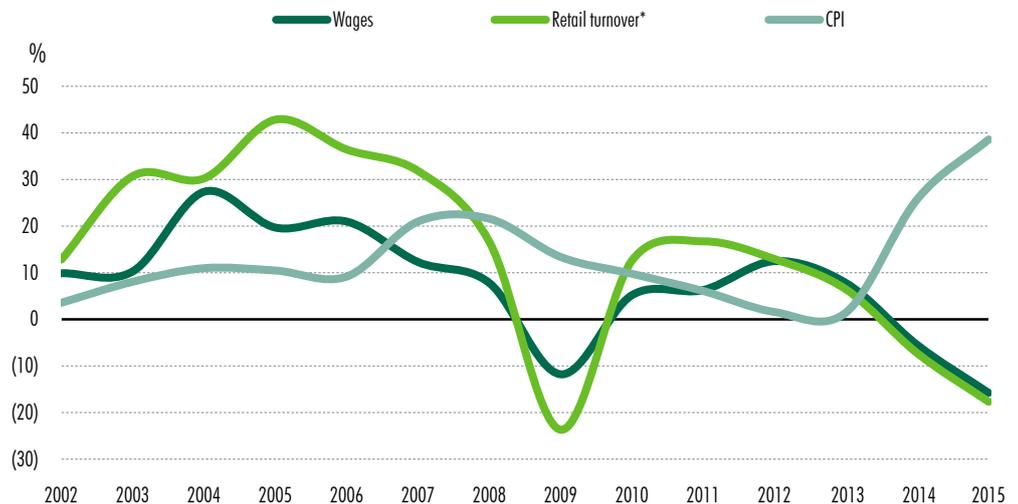
HOT TOPICS

- Minor improvement of consumer demand in H2 2015, with retail turnover still declining 17.7% y-o-y
- Reduction in annual new supply that reached ten-year low of 21,600 sq m (-38.7% y-o-y)
- Noticeable decline in average market vacancy (-3 pp y-o-y): prime vacancy shrank to 3% - 5%, while secondary varied in the 7%-10% range
- Further slide in USD-based rents due to UAH depreciation: prime rents declined by 23% y-o-y, while secondary rents posted approximately 30% drop

DEMAND

In 2015 consumer demand was under pressure, as consumers were struggling to balance household budgets against expensive utilities combined under conditions of record high inflation. Nevertheless, consumer sentiment remained volatile: after a steep drop the Index in February down to 41.1 points, according to GfK Ukraine, a slight rebound of consumer confidence was recorded by the end of 2015 at the level of 53.1 points (+0.5 p y-o-y). Relative macroeconomic stabilization combined with reined in currency devaluation over Q2-Q3, as well as traditionally more active Winter Holiday shopping season in Q4 stimulated spending at the end of the year, which in part translated into decelerating decline of retail turnover. As a result, the volume of organized retail turnover in Kyiv contracted by 17.7% y-o-y.

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



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

Food retailers, health&beauty and jewelry were amongst more active occupiers over 2015, while fashion retail generally put the expansion plans on hold. Nonetheless, stronger players made pinpoint expansion decisions in H2 2015 in order to secure good units in most successful shopping centers. Thus Colin's, Turkish mid-range fashion and denim retailer, expanded the area of existing stores from 400 sq m to 1,000 sq m in Sky Mall, as well as opened one more store of 600 sq m in Ocean Plaza in addition to the already operating 200 sq m unit in the same property. Another Turkish mid-range retailer LC Waikiki opened its largest store of 1,360 sq m in Prospekt and announced 10 planned new openings in 2016.

Another notable trend was active tenant rotation campaigns undertaken by shopping center owners, aiming to attract consumers, increase footfall and maintain lower vacancy. Landlords were focused on creating stable tenant mix through anchor tenant replacement and expanding entertainment component. For example, Furshet Gurman was changed for Silpo supermarket in Gulliver, while Multiplex cinema replaced Kronverk cinema in Sky Mall. Somewhat creatively Art Mall extended its entertainment zone through opening of a petting zoo for children. Another example of strengthening entertainment zone was the opening of outdoor recreation space Sky Family Park near Sky Mall.

In spite of the turbulent political and economic environment, several new cross-border entries opened their first stores in Kyiv during 2015. Among most notable brands in mid-range fashion segment are German brand Betty Barclay with the first store in Ocean Plaza and Turkish ADL opening units in Dream Town, Pyramida and Ocean Plaza. New openings were recorded in the luxury fashion segment, with first boutique openings of American high fashion house Oscar de la Renta and French luxury monobrand Chloe. Turkish footwear Superstep opened its first multibrand store in Sky Mall, whereas Coqui footwear brand originating from the Czech Republic opened doors in Art Mall. Other new entries included Dutch lingerie brand Hunkemoller, childrens' clothing chain 5.10.15 and Sanetta, French Health&Beauty retailer Melvita, as well as mobile operator Vodafone in a move that is for the time being a pure re-branding of Russian-owned formerly MTS telecom operator. New retailers preferred to open their first stores in shopping centers rather than in high street.

SUPPLY

Whereas no new shopping centers were delivered to the market during the first three quarters of the year, minor addition to the total retail stock was recorded during Q4 2015 with the delivery of Phase II of Gorodok SC (15,000 sq m GLA) and Phase II of Manufactura outlet center (6,600 sq m GLA). As a result annual development completions of professional retail space reached its ten-year trough of 21,600 sq m (-38.7% y-o-y), with the total stock in Kyiv inching up to ca. 900,000 sq m as of the end of December 2015, while the provision of retail space is estimated at 319 sq m per 1,000 ppl.

No new developments were started during H1 2015, with consistently declining pace of works on current sites in view of virtual inaccessibility of debt financing coupled with inactive leasing campaigns. Thus Respublika (135,000 sq m GLA), Ukraine's largest project previously scheduled for delivery in 2015, was put on indefinite hold, with some 6 months to finish, while developers of other schemes planned for 2015 postponed deliveries for 2016-2017. Nonetheless, retail pipeline volume increased in the latter part of the year: construction of Ocean Mall (55,000 sq m GLA) and River Mall mixed-use (55,000 sq m GLA) resumed during the second half of the year.

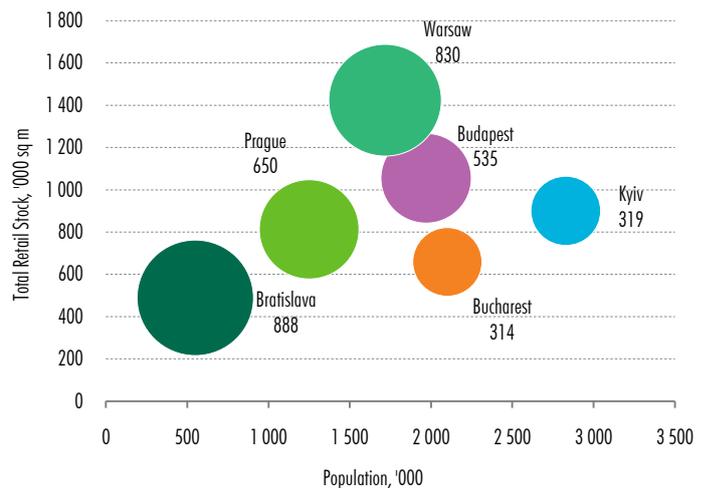
Currently around 280,000 sq m of new retail space is announced for delivery by the end of 2016 in four shopping centers, including landmark reconstruction and extension of centrally located TSUM (22,500 sq m GLA), small-scale New Way (16,000 sq m) Shopping Centre located in the residential neighborhood on the East (Left) Bank, as well as two large-scale projects

KYIV CROSS-BORDER MARKET ENTRY

BRAND	RETAIL SECTOR	ENTRY LOCATION
Betty Barclay	Mid Range Fashion	Ocean Plaza
ADL	Mid Range Fashion	Dream Town, Ocean Plaza, Pyramida
Oscar de la Renta	Luxury and Business	Mandarin Plaza
Chloe	Luxury and Business	13 Kreschatyk St.
Hunkemoller	Lingerie	Ocean Plaza, Sky Mall
SuperStep	Footwear	Sky Mall
5.10.15	Childrens' clothing	Sky Mall
Sanetta	Childrens' clothing	Gulliver
Eterna	Mid Range Fashion	Gulliver
Vodafone	Consumer Electronics	15 Kreschatyk St.
Coqui	Specialist Clothing	Art Mall
Melvita	Health&Beauty	Ocean Plaza

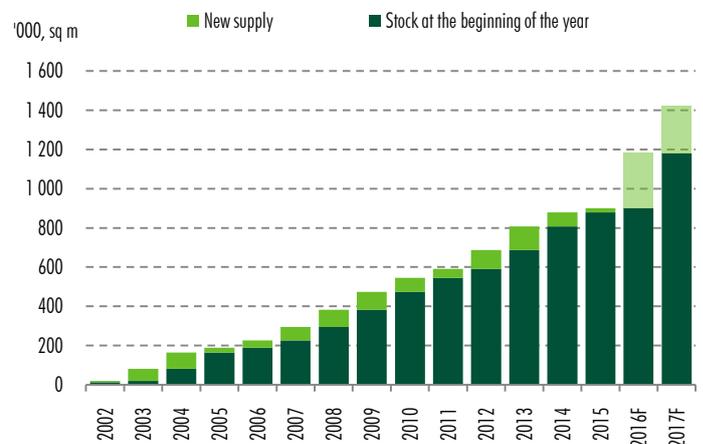
Source: CBRE Ukraine

RETAIL PREMISES PER 1,000 INHABITANTS IN SELECTED CEE CAPITALS IN 2015



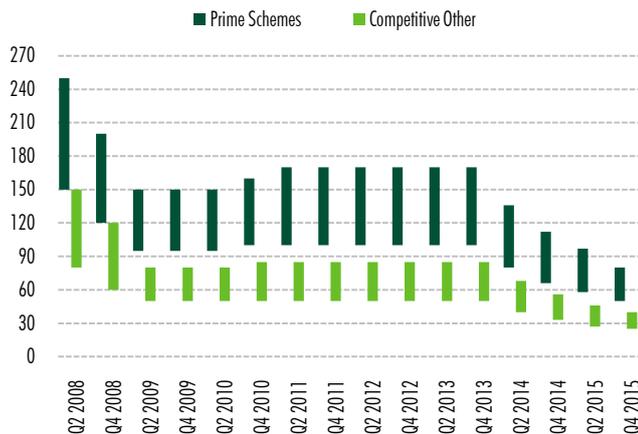
Source: CBRE Ukraine

KYIV SHOPPING CENTER STOCK



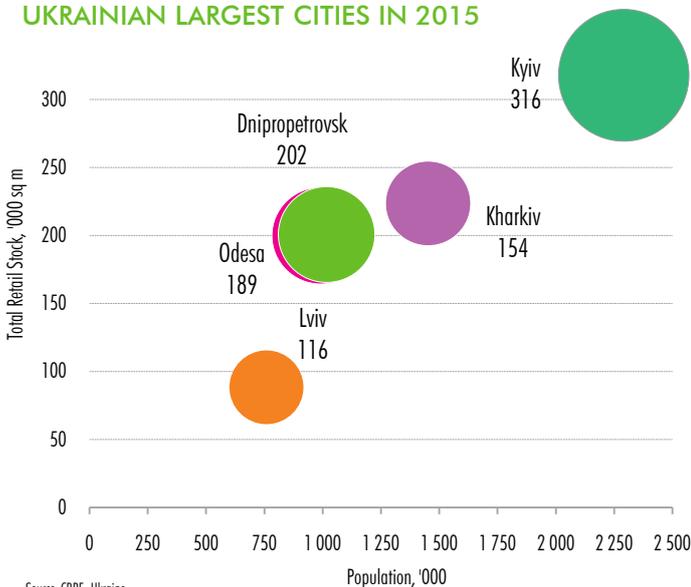
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Source: CBRE Ukraine

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



Source: CBRE Ukraine

RETAIL PREMISES PER 1,000 INHABITANTS IN UKRAINIAN LARGEST CITIES IN 2015



Source: CBRE Ukraine

KEY RETAIL REGIONAL SCHEMES IN 2015-2016

NAME	CITY	DEVELOPER	GLA, sq m	COMPLETION/ANNOUNCED DELIVERY
Future Retail Schemes Under Construction planned for 2015				
Forum Lviv	Lviv	Multi Development/Bud House Group	36,000	H2 2015
Hollywood Mall	Chernihiv	Local developer	43,000	H2 2015
Gagarin Plaza	Odesa	Local developer	9,000	H2 2015
Future Retail Schemes				
Victoria Gardens	Lviv	Foreign developer	54,500	2016
Nikolskyi	Kharkiv	Bud House Group	52,000	2016-2017

Source: CBRE Ukraine

Lavina Mall (127,500 sq m GLA) and Blockbuster Mall (114,000 sq m GLA). The last two projects are third-generation shopping centers developed by the same group with large entertainment components, including waterpark, amusement park, large food court zones etc., which are unlikely to reach the market simultaneously. In addition, the delivery of additional ca. 238,000 sq m in four large-scale shopping centers is scheduled for opening in 2017, making the trend of increasing competition evident for the future retail market. However, the volume of actual completions will heavily depend on availability of equity funding, as well as the extent of recovery in retailers' demand.

VACANCY&RENTS

In general, occupancy levels did improve over the year: average market vacancy declined by approximately 3 pp as compared to the end of 2014. This trend reflects the fact that for the most part landlords adjusted their income expectations in line with market reality, while interest from occupiers with stronger budgets was gradually rising in the most sought-after shopping centers. Vacancy in prime schemes posted further decline to 3% - 5%, while secondary vacancy indicator varied in the 7%-10% range.

In 2015 rental rates expressed in USD terms displayed significant downward correction after a sharp drop in currency value in the beginning of the year, followed by relative stabilization in Q2-Q3 and then further decline in December. Hence, prime rents dropped by 23% in the course of the year and varied in the \$50-\$80/sq m/month (triple net) range for 100-200 sq m typical gallery units. Secondary schemes felt deeper rent reductions of approximately 30%, with base rents reaching the \$25-\$40/sq m/month range as of the end of 2015. Turnover rents and temporary fixation of the UAH/USD exchange rate were widely practiced during the year.

REGIONS

In view of relatively lower disposable income and purchasing power in regional cities compared to Kyiv, regional consumers were more susceptible to economic downturn. According to government statistics, organized retail turnover posted a 21% y-o-y fall nationwide during 2015. However, the sharpest contraction in consumer spending was recorded in H1 2015 reflecting accelerating inflation, substantial spike in utility tariffs, steep devaluation and falling real wages. In H2 2015 consumer demand displayed minor improvement owing to less volatile national currency and lower economic uncertainty.

While most retailers were busy with business optimization by halting expansion particularly in the regional cities, some retail operators were willing to expand their chains across previously not covered parts of the country or securing space in best regional schemes not available before. In H2 2015 Danish home furnishing retailer JYSK Holding opened one more store (1,000 sq m) in Hollywood shopping center in Chernihiv after two openings in Ivano-Frankivsk's SC Panorama and within VAM SC in Lviv. Praktiker, DIY operator, opened its 4,500 sq m new format DIY supermarket in Vavilon SC in Dnipropetrovsk after downsizing its chain and halting the expansion for several prior years. In addition, Auchan also opened its smaller new format (of 5,000 sq m) supermarket within Unicenter SC in Lviv. In the fashion segment notable retailer activity was recorded in Lviv: 16 new brands previously not present in the city opened their first stores in the newly-delivered Forum Lviv shopping center in H2 2015. Most recognized brands included Massimo Dutti, Oysho, Betty Barclay, ADL, SuperStep, LCWaikiki, Intimissimi, Calzedonia, and Timberland, among others.

Although no professional shopping centers were delivered in the regional cities during H1 2015, development completions amounted to 88,000 sq m (-38% y-o-y) by the end of the year. Three shopping centers were commissioned in the second half of the year, including the most notable opening of Forum Lviv (35,000 sq m GLA) in Lviv, alongside Hollywood Mall (43,000 sq m GLA) in Chernihiv and a small Gagarin Plaza mixed use center (9,000 sq m GLA) in Odesa. The delivery of Victoria Gardens (54,500 sq m GLA) shopping center in Lviv was postponed for 2016, with construction mostly completed. Thus currently after addition of Forum Lviv, retail space provision in Lviv increased from 70 to 116 sq m per 1,000 ppl during 2015, and the indicator is expected to reach 188 sq m per 1,000 ppl with the delivery of Victoria Gardens in 2016. In addition, Nikolskyi (52,000 sq m GLA) Shopping Center in prime central location of Kharkiv was previously planned for commissioning in 2016, however, the delivery might be postponed further, given the current stage of construction.

OUTLOOK

In 2016 retailer demand is expected to rebound moderately on the back of the expected improvements in consumer sentiment supported by stronger economic fundamentals. Nevertheless, most retailers currently do not plan significant number of new openings during 2016. Occupiers' activity is likely to accelerate in the second half of the year, with a focus on prime shopping centers, as well as secondary schemes possessing beneficial location in proximity to high rise residential areas with lower competition.

Development completions are announced to reach 280,000 sq m in four shopping centers in 2016. At the same time, 85% of that volume is concentrated within two super-regional shopping centers in Lavina Mall and Blockbuster Mall, which are unlikely to enter the market in 2016. Therefore, in case of likely delay in simultaneous commissioning of the two large projects we expect approximately 40,000 sq m of actual new supply in New Way and TSUM to enter the market in 2016. Looking at the following year, a similar volume of 238,000 sq m of modern retail space is announced for delivery in 2017. However, insufficient economic growth and consumer spending will most likely not permit these volumes to enter the market as planned.

In 2016 retailers will remain focused on prime properties, bringing prime vacancy further down, while secondary schemes will experience rising vacancy driven by new completions coupled with cautious approach to expansion. Even though delays in delivery are frequent and all announced stock is unlikely to reach the market in time, vast amount of retail pipeline forecast for delivery in 2-3 year perspective does not provide grounds for rental recovery. We forecast prime rents in Kyiv to remain stable over the course of 2016. At the same time, in order to assemble a well-branded quality tenant-mix, new shopping centers should be prepared to offer competitive initial lease terms to stimulate the pace of leasing campaigns or postpone the opening in anticipation of stronger market recovery.

RESEARCH REPORT

Kyiv Retail Market

CBRE | Ukraine

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2015

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.

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