

Kyiv & Regions Retail Market, 2018

Strengthening Rents as Market Awaits New Development Kick-Offs



Total Stock ▲
1.1 mio
sqm (+4.4% y-o-y)



Vacancy ▼
3.0%
(-2pp y-o-y)



Prime Rent ▲
\$75-95
sqm/month

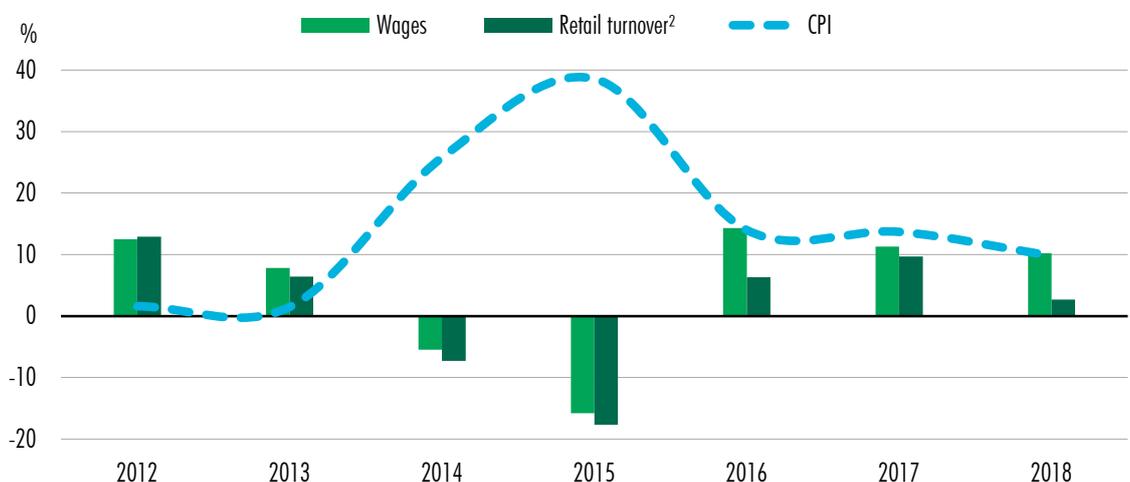
Demand

2018 was marked by sustained growth in retail turnover (+2.7% y-o-y), feeding into higher demand for retail space from new and existing retailers. The degree of price-sensitivity was positively influenced by a 10.2% y-o-y increase in the real wage rate in Kyiv. Constrained by NBU's multiple policy rate hikes, CPI reached 109.8 by December 2018, slowing down from last year's 113.7 indicator, albeit still remaining above NBU's target of 6% +2pp.

As a result of growing competition on the retail market, 2018 saw traditional food retailers actively launch new store concepts, testifying to growing popularity of a multiformat retailing model. According to Euromonitor International, convenience stores demonstrated the strongest growth share amongst all grocery retail channels in current value terms, with the considerable

increase being attributed to low saturation of the niche on the market. Supported by the most affluent population in the country, as well as growing concerns over convenience of shopping experiences, the trend was particularly evident in Kyiv. Fozzy Group's *Fora* brand remained the national proximity store leader, being active in launching new shops in Kyiv's suburbs. The French retailer Auchan Retail opened 4 *My Auchan* convenience stores (with Click & Collect points for online orders) in 2018 by replacing *Topmart* locations in Kyiv the company acquired in 2017. Growing its original format, the retailer opened its largest yet supermarket in Kyiv (15,000 sqm) in Phase I of Rive Gauche SC. In the high-end of grocery retail segment, Novus expanded its presence with 5 new stores in 2018 including its premium format store that opened in Good Life SC.

Figure 1: Kyiv Wages, Retail Turnover and Consumer Price Index (% change, y-o-y)¹



¹ Excluding the temporarily occupied territories, the Autonomous Republic of Crimea, the city of Sevastopol and part of the anti-terrorist operation zone

² Includes organized retail sales only

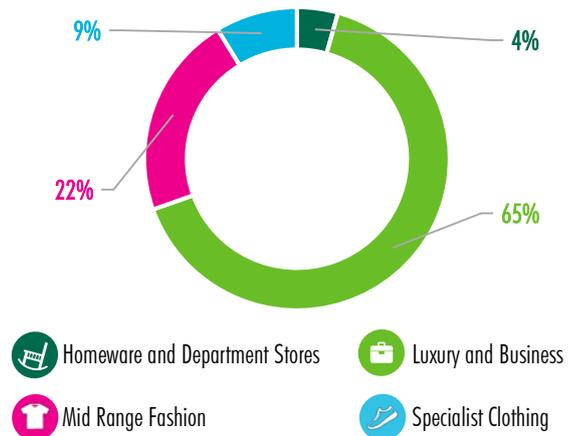
Source: Kyiv Statistics Office

In Consumer Electronics segment, Korean brand *Samsung Home* opened its largest retail space (500 sqm) in Ukraine in *Epicentr K*, also marking the entry of the first branded Samsung household appliances store in Europe. In the fashion segment, 20 new international brands entered the market, which is slightly down from the prior year's figure of 35 entries. The share by the number of new stores of Luxury & Business Fashion segment increased considerably and amounted to 65% (+37pp y-o-y), followed by Mid-Range Fashion segment with 22%, Specialist Clothing with 9%, and Homeware & Department Store segment with 4%. Most notable entries of the year included the opening of *Zara Home* (Spanish Homeware & Department store brand) and the long-awaited opening of *H&M* with *H&M Home* (Swedish Mid-Range Fashion brand). Other brands, like *Koton* (Turkish Mid-Range Fashion brand), re-entered the market, while a brand of *Argo Retail – Promod* (French Mid-range Fashion brand) – left the market after an almost 18-year presence in Ukraine, as it was replaced by *Orsay*, another brand of *Argo Retail*. Kyiv prime shopping centers *Gulliver*, *Ocean Plaza*, and *Lavina Mall* took the largest share of new entries in 2018, with high street retail locations on *Velyka Vasylkivska St.* too hosting several new international brands.

Supply

Shopping center completions in 2018 amounted to approximately 54,000 sqm, which is a noticeable uplift as opposed to meagre 8,000 sqm delivered in 2017. The total shopping center volume ticked upwards to 1.1mio sqm (+4.4% y-o-y) as a result of new deliveries of *Rive Gauche Phase I* (20,500 sqm), *Smart Plaza Polytech* (15,000 sqm), the first Ukrainian retail park scheme *Retail Park Petrivka* (11,000 sqm), and partly opened (only with the anchor tenant) *Good Life* (7,500 sqm). According to developers' statements, next year is set to bring over 400,000 sqm of new retail stock, including major shopping and entertainment centers like *Ocean Mall* (100,000 sqm) and *Blockbuster Mall Phase I* (100,000 sqm), with the former highly likely to be opened in 2020. Given rising demand for retail space and steady economic fundamentals, the market awaits new development kick-offs, with probability of announced completion dates being delayed remaining high in a number of cases.

Figure 2: New Brand Entries Structure* by Retail Sector in 2018



*number of new entries
Source: CBRE Ukraine

Table 1: Cross-Border Market Entry in Kyiv Shopping Centers in 2018

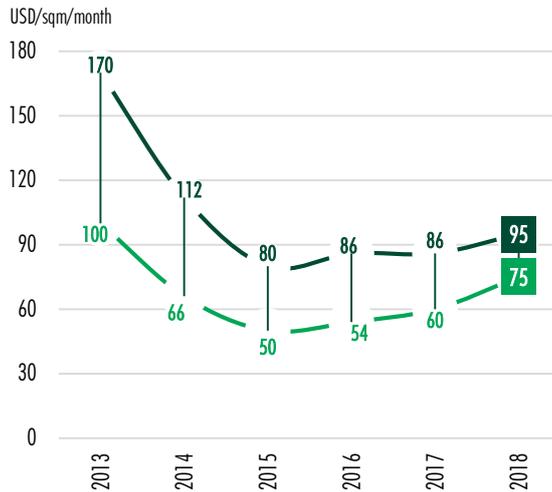
BRAND	RETAIL SECTOR	ENTRY LOCATION
All Saints	Luxury and Business	Ocean Plaza
Alpina	Specialist Clothing	Plazma
Antony Morato	Mid-Range Fashion	Cosmopolit
Balmain	Luxury and Business	Mandarin Plaza
Daniel Hechter	Luxury and Business	Gulliver
DeFacto	Mid-Range Fashion	Globus
Emporio Armani	Luxury and Business	Ocean Plaza
H&M	Mid-Range Fashion	Lavina Mall
HUGO	Luxury and Business	Sky Mall
Jo Malone	Luxury and Business	Gulliver
Kilian	Luxury and Business	Gulliver
Koton	Mid-Range Fashion	Lavina Mall
Laurel	Luxury and Business	Gulliver
LIVLY	Specialist Clothing	Gulliver
New Yorker	Mid-Range Fashion	French Boulevard
Penny Black	Luxury and Business	Ocean Plaza
Polo Ralph Lauren	Luxury and Business	Gulliver/Ocean Plaza
Santoni	Luxury and Business	Mandarin Plaza
Ted Baker	Luxury and Business	Ocean Plaza
Trollbeads	Luxury and Business	Ocean Plaza
Tru Trussardi	Luxury and Business	Ocean Plaza
XTI	Specialist Clothing	Lavina Mall
Zara Home	Homeware and Department Stores	Gulliver

Source: CBRE Ukraine

Vacancy & Rents

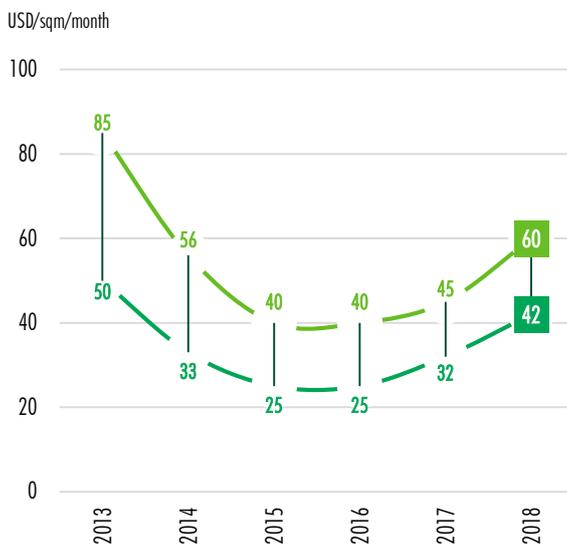
Growing demand for retail premises, attributed to continuous growth in retail turnover, induced further decrease in average vacancy from 5% to 3% (-2pp y-o-y). Despite delivery of ca. 54,000 sqm of retail space in 2018, the premises were delivered with almost full occupancy. Demand from retailers was particularly strong for prime locations, where vacancy ranged from 1.5% to 0%. Consequently, **base rents** in Kyiv **prime schemes** oscillated around **\$75-\$95/sqm/month**, as the lower bound of the range increased by ca. 15% y-o-y, further narrowing the range gap. Similarly, **secondary base rents** posted an increase of 31% in the lower bound of the range and 20% in the upper bound, therefore ranging between **\$42 and \$60/sqm/month**.

Figure 4: Base Rents Range in Kyiv Prime Schemes



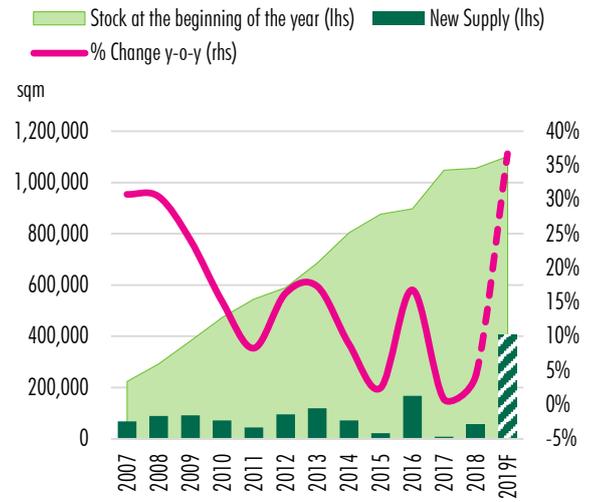
Source: CBRE Ukraine

Figure 5: Base Rents Range in Kyiv Secondary Schemes



Source: CBRE Ukraine

Figure 3: Kyiv Shopping Center Stock and New Supply



F-Forecast; lhs—left hand side, rhs—right hand side
Source: CBRE Ukraine

Table 2: Key Shopping Centers in the Pipeline, as of 2018

COMPLETION /ANNOUNCED FOR DELIVERY	GLA, SQ M	DEVELOPER
2018 (DELIVERED)		
Good Life	7,500	Novopecherskyi Pasazh/Dosvid 2002
Retail Park Petrivka	11,000	CEETRUS
Rive Gauche (Phase I)	20,500	CEETRUS
Smart Plaza Polytech	15,000	A Development
2019		
Aprel (Phase II)	45,700	Kyivproekt Development
Blockbuster Mall (Phase I)	100,000	Mandarin Plaza/Megaline
Oasis	13,200	Megaline
Ocean Mall	100,000	Megaline
Retroville	80,700	Stolitsa Group
River Mall	54,700	Vilna Ukraina
Smart Plaza Obolon	10,000	A Development
2020		
Kyiv Mall	58,000	Dilais
Lukianivka Mall	47,000	Aricano Real Estate
Rive Gauche (Phase II)	50,000	CEETRUS
White Lines	27,000	A Development
2021		
Sky Mall (Phase III)	39,000	Prizma Beta
HALTED		
Respublika	135,000	K.A.N. Development

Source: CBRE Ukraine

Regions

In 2018, regional retail turnover posted a 5.6% y-o-y growth, with the highest growth indicators noted in Ivano-Frankivsk (+11.9% y-o-y), Kyiv (+10.4% y-o-y), and Zhytomyr regions (+10% y-o-y), excluding temporarily occupied territories of Donetsk and Luhansk regions. Meanwhile, the growth in real disposable income was registered at +10% y-o-y, which gave a positive push to regional consumer spending. Consequently, in 2018 Ukrainian consumers were less price-sensitive than over the economic crisis period of 2014-2015. In the fashion segment, international retailers such as LC Waikiki, LPP, Miniso, and USUPSO were among most actively expanding retailers on the Ukrainian market. Traditionally, food retailers occupied a significant share of the regional retail market. ATB, the largest Ukrainian food discounter, increased its retail space by ca. 80 units in 2018 alone, totaling ca. 990 stores countrywide (ca. +8% growth y-o-y). ATB's expansion was accelerated by the 2017 acquisition of *Colibris* stores and the acquisition of one *Billa* supermarket in Odesa. In line with the convenience store trend, ATB introduced its first *ATB Express* store in Zaporizhzhia, which the company marked as an experiment to their regional entry. Despite predominantly premium store model of Novus, the retailer also stepped into the proximity store format by opening its first *Novus Express* in Irpin (Kyiv region).

On the other side of the multiformat model, Auchan Group announced its presence in Dnipro by launching the first in the country superstore format *Auchan* (3,500 sqm) in Dafi SC. Throughout 2018, the retailer expanded by ca. 35% y-o-y and increased the number of stores to 27. In the meantime, Fozzy Group expanded in the form of 7 new concept *Silpo* stores and 12 *Fora* discounter stores (ca. +7.2% growth y-o-y countrywide, totaling ca. 700 Fozzy Group stores).

New limited additions to the regional stock were represented by Woodmall (10,000 sqm) in Khmelnytskyi and Gagarin Plaza Phase II (20,000 sqm) in Odesa. The tempo of development was slowed down by lack of financing, although few developers were planning to renew existing projects based on growing consumer demand. For instance, two shopping centers in Dnipro such as Dafi (16,000 sqm) and Most City (25,000 sqm) were undergoing renovation and are due to be delivered in new formats in 2019. The 2019-2020 period is expected to be eventful in terms of new additions in the regional cities amounting to ca. 207,500 sqm in total. The density of retail area per 1,000 habitants in the biggest cities stayed broadly the same: 155 sqm in Kharkiv, 200 sqm in Dnipro, 203 sqm in Lviv and 243 sqm Odesa. Such marginal change in the regional stock was the result of limited new supply on the market over 2018.

Figure 6: Density and Purchasing Power in the Largest Regional Cities



lhs—left hand side, rhs—right hand side
Source: CBRE Ukraine

Table 3: Key Shopping Centers in the Regional Pipeline as of 2018

ANNOUNCED FOR DELIVERY	GLA, SQ M	CITY	DEVELOPER
2018 (DELIVERED)			
Gagarin Plaza (Phase II)	20,000	Odesa	Atlanta Invest Development
Woodmall	10,000	Khmelnyskiy	Ukrainian Building Capital
2019			
Ornava (Phase II)	25,000	Ternopil	Rodyna Invest
Panorama (Harmata)	6,000	Zaporizhzhia	Local developer
Spartak	23,000	Lviv	Lvivbudmaks-invest
Ternopil Mall	50,000	Ternopil	Local developer
2019 (RENOVATION)			
Dafi	16,000	Dnipro	Dafi
Most City	25,000	Dnipro	Alef Estate
Neo Plaza	14,000	Dnipro	n/a
2020			
Alexander Plaza	41,000	Zaporizhzhia	Alexander Group
Gagarin Plaza (Phase III)	10,500	Odesa	Atlanta Invest Development
Nikolskiy	52,000	Kharkiv	Budhouse Group
PROJECT			
Arsen Mall	33,000	Lviv	Proekt Center
Fabrika 2	57,000	Zaporizhzhia	Budhouse Group
Les Vignes (Phase I)	17,000	Odesa	CEETRUS
Shopping Center	100,000	Zaporizhzhia	DELTA Ukraine

Source: CBRE Ukraine

Table 4: Major Food Retailers & Their Brands Operating on the Ukrainian Market

<p>ATB</p> <ul style="list-style-type: none"> Supermarket Format: ATB Convenience Store Format: ATB Express 	<p>Novus</p> <ul style="list-style-type: none"> Supermarket Format: NOVUS Convenience Store Format: NOVUS Express
<p>Fozzy Group</p> <ul style="list-style-type: none"> Supermarket Format: Le Silpo, Favore, Silpo Hypermarket Format: Fozzy C&C Convenience Store: Fora, Thrash! 	<p>Retail Group</p> <ul style="list-style-type: none"> Supermarket Format: Velyka Kyshenia, VK Select Hypermarket Format: Velmart Convenience Store Format: VK Express
<p>Auchan Group</p> <ul style="list-style-type: none"> Hypermarket Format: Auchan Convenience Store Format: My Auchan 	<p>VolWest Group</p> <ul style="list-style-type: none"> Supermarket Format: SPAR, Nash Kraj Convenience Store Format: Nash Kraj Express, SPAR Express
<p>Metro C&C</p> <ul style="list-style-type: none"> Hypermarket Format: METRO Convenience Store Format: 'Take-Carry' 	<p>Furshet Group</p> <ul style="list-style-type: none"> Supermarket Format: Gurman Furshet, Furshet
<p>Tavria V</p> <ul style="list-style-type: none"> Supermarket Format: Cosmos, Tavria V 	<p>EKO Market</p> <ul style="list-style-type: none"> Supermarket Format: EKO Market, Simpatik
<p>Billa Ukraine</p> <ul style="list-style-type: none"> Supermarket Format: Billa 	<p>Omega</p> <ul style="list-style-type: none"> Supermarket Format: Varus

Source: CBRE Ukraine, open sources

Investment

A total of three notable investment transactions closed in the Ukrainian market in 2018, solely acquired by Dragon Capital Investments Ltd: Aladdin (10,200 sqm) in Kyiv, Sky Park (15,400 sqm) in Vinnytsia, and Victoria Gardens (54,500 sqm) in Lviv. The properties can be characterized as quality income-generating assets, among leading in their market locations and with steady customer footfall. Thus, retail sector ranked second with ca. \$98 mio of capital put towards retail investment in 2018. On the back of completed transactions, prime yields strengthened by 0.25pp and stood at 11.75%.

Outlook

2019 is holding the prospects of a steadily growing leasing demand alongside expansion strategies from both international and domestic retailers. Improving domestic consumption, primarily in Kyiv, will remain the driver for cross-border entries. In 2019 the market anticipates several new brands to open their first stores in Kyiv, most notably *Claudie Pierlot* (French Luxury & Business Fashion brand), *Decathlon* (French Specialist Clothing brand), *MISSHA* (South Korean Skincare brand), and *Steve Madden* (US Specialist Clothing), among others. Previously declared opening of *IKEA* (Swedish Homeware & Department Stores brand) in

2019 is likely to be postponed due to the high likelihood of delayed delivery of Ocean Mall, where the retailer is planning to open its first store. Landlords keep introducing ever more entertainment components in new retail projects, including shopping centers expected for delivery in 2019: *Aprel Phase II* (45,700 sqm), *Blockbuster Mall Phase I* (100,000 sqm), *Oasis* (13,200 sqm), *Ocean Mall* (100,000 sqm), *Retroville* (80,700 sqm), *River Mall* (54,700), and *Smart Plaza Obolon* (10,000 sqm). Assuming the aforementioned projects get delivered as planned, by the end of 2019 the total competitive retail stock of Kyiv will increase by 37% y-o-y to 1.51 mio sqm, creating favorable market condition for retailers. As a knock-on effect from considerable new supply, rental growth will be likely to slow down, resulting in a more tenant friendly market. On the back of relatively stable economic growth, investment sentiment is forecast to recover further, with yield compression bound to follow. In the European market in general, the volume of retail investment is projected to remain strong primarily due to maturing CEE markets, where rents are forecast to keep growing in prime shopping center locations.

Key Retail Market Indicators Summary and Outlook



CONTACTS

For more information regarding this Market Report, please contact:

Sergiy Sergiyenko
 Managing Partner
 e: sergiy.sergiyenko@cbre-expandia.com

Radomyr Tsurkan
 Managing Partner
 e: radomyr.tsurkan@cbre-expandia.com

Diana Starunchak
 Head of Marketing and Research
 e: diana.starunchak@cbre-expandia.com

Anzhelika Arzumanian
 Senior Analyst
 e: anzhelika.arzumanian@cbre-expandia.com



RETAILER SECTOR DEFINITIONS (in alphabetical order)

- **Coffee & Restaurants:** includes fast food, restaurants, confectionary retailers and coffee shops; otherwise known as Food & Beverage (F&B)
- **Consumer Electronics:** includes computing, phones, other electronics and electrical retailers
- **Health and Beauty:** includes cosmetics, skin care, chemists and healthcare retailers
- **Homeware & Department Stores:** includes DIY, department stores and furniture retailers
- **Luxury & Business Fashion:** includes any luxury retailer from all areas of retailing, including men’s and women’s luxury clothing/footwear, jewelry and business clothing retailers
- **Mid-Range Fashion:** includes men’s and women’s mid-market and casual fashion retailers
- **Other:** includes all other types of retailers including pet stores, books, music and DVD retailers
- **Specialist Clothing:** includes general (as opposed to luxury) footwear, underwear, sportswear, children’s clothing and accessories retailers
- **Supermarket:** includes multiple grocery/convenience stores, supermarkets and hypermarkets
- **Value & Denim:** includes value and discount clothing, and denim retailers

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 sqm 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 sqm 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.

DISCLAIMER 2019 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 2019 Expandia LLC | Part of the CBRE affiliate network