

Kyiv & Regions Retail Market

Limited New Deliveries as Increasingly More International Brands Enter the Market

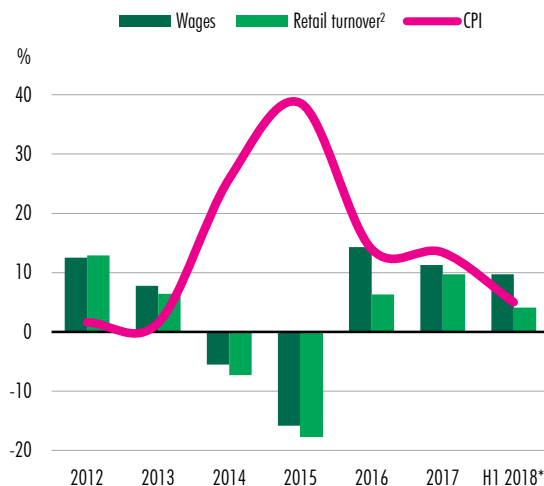


Demand

Domestic demand kept Ukrainian economic growth at a reasonably steady pace averaging at 3.1% (y-o-y) in Q1 2018. The expansion of Kyiv retail turnover (+4.3% YTD) continued on the back of rising disposable income, which, in turn, was stemming from a healthy increase in real wages (+9.3% YTD). CPI accelerated by 4.4% YTD, staying in line with the annual inflation target of the National Bank of Ukraine (8% +2pp). In H12018 dynamic competition between food retailers resulted in new store formats and refurbishments of existing locations in order to improve competitive advantage of various players. For instance, the French retailer Auchan Retail introduced its first convenience store in Kyiv named My Auchan. The new stores came as substitute to former *Topmart* locations that the company acquired last year to pursue its multiformat expansion strategy. In the fashion segment, shopping centers remained the prime

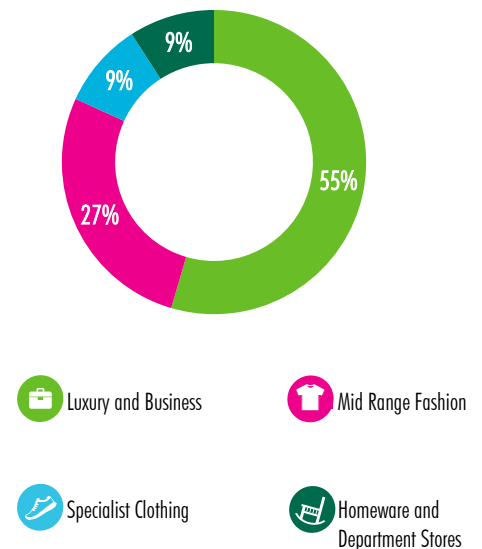
destination choice of leading retailers, with most of H12018 cross-border entries landing in Gulliver SC. With a view to target the most affluent consumer audience, 55% of new entries were represented by luxury and business fashion segment, followed by mid-range fashion segment (27%). Whereas a total of 11 new international brands entered the market in H12018, a brand of ARGO Retail Promod left the market after an almost 18-year presence in Ukraine, a likely result of worldwide discontinuation of the brand. As an indication of fresh activity in street retail, the Ukrainian fashion brand *Vsi Svoi* announced plans to open its second store, this time a 1,500 sqm Homeware and Décor themed unit on 34 Khreschatyk St., which was encouraged by the success of its existing high-street shop on 27 Khreschatyk St. and the popularity of its weekly pop-up fairs on 12 Desiatynna St.

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
 *Latest available data as of the end of June
 Source: Kyiv Statistics Office

Figure 2: New Brand Entries Structure by Retail Sector in H12018



Source: CBRE Ukraine

Table 1: Cross-Border Market Entry in Kyiv Shopping Centers in H12018

BRAND	RETAIL SECTOR	ENRTY LOCATION
All Saints	Luxury and Business	Ocean Plaza
Alpina	Specialist Clothing	Plazma
Antony Morato	Mid-Range Fashion	Cosmopolit
DeFacto	Value and Denim	Globus
Emporio Armani	Luxury and Business	Ocean Plaza
HUGO	Luxury and Business	Sky Mall
Jo Malone	Luxury and Business	Gulliver
Kilian	Luxury and Business	Gulliver
Koton	Mid-Range Fashion	Lavina Mall
Santoni	Luxury and Business	Mandarin Plaza
Zara Home	Homeware and Department Stores	Gulliver

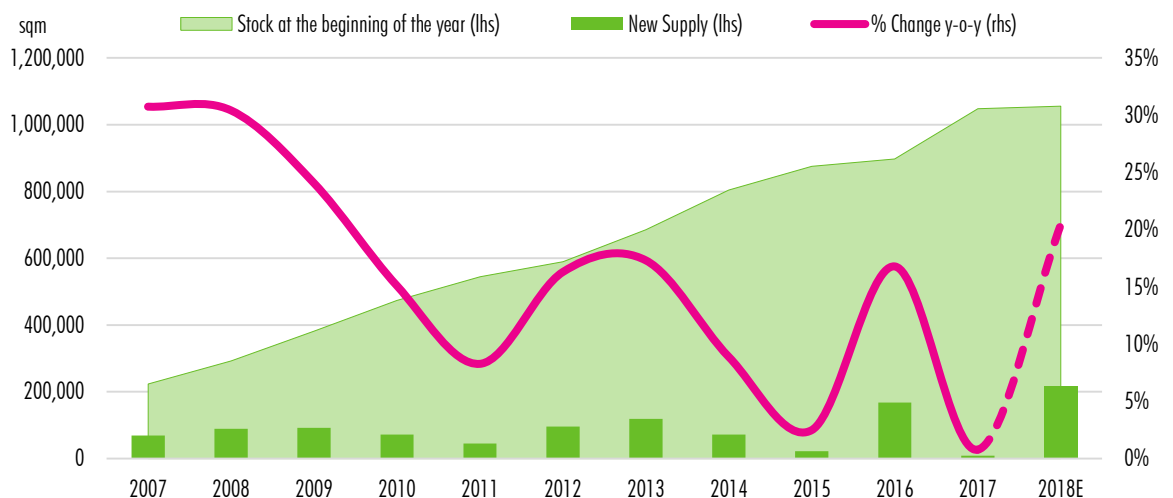
Source: CBRE Ukraine

Supply

After a year of record low new supply, a total of ca. 47,000 sqm of newly built retail space was delivered in H12018. The stock additions were represented by Rive Gauche Phase I (20,500 sqm), Smart Plaza Polytech (15,000 sqm), and the first retail park in Ukraine – Retail Park Petrivka (11,000 sqm). As a result of these new additions, the total professional stock volume grew to 1.1mio sqm (ca. +4% YTD). The anticipated new supply of H22018 is forecast to add up to ca. 162,500 sqm, represented by

Blockbuster Mall Phase I (120,000 sqm), April Phase II (24,000 sqm), Smart Plaza Obolon (11,000 sqm), and Good Life (7,500 sqm). Previously planned for 2018 delivery Retroville SC was postponed this time until 2019, therefore decreasing potential 2018 new supply in Kyiv by 80,700 sqm. Although the construction of new retail schemes is progressing somewhat sluggishly, significant stock boost is expected to hit the market over the 2019-2020 period.

Figure 3: Kyiv Shopping Center Stock and New Supply



lhs—left hand side; rhs—right hand side; E-Estimate
Source: CBRE Ukraine

Kyiv New and Forecast Supply in 2018-2020



Source: CBRE Ukraine

Table 2: Key shopping centers in the pipeline, as of 2017

ANNOUNCED FOR DELIVERY	GLA, sqm	DEVELOPER
Delivered in H12018		
Retail Park Petrivka	11,000	Immochan Ukraine
Rive Gauche (Phase I)	20,500	Immochan Ukraine
Smart Plaza Polytech	15,000	A Development
H22018		
Aprel (Phase II)	24,000	Kyivproekt Development
Blockbuster Mall (Phase I)	120,000	Mandarin Plaza/Megaline
Good Life	8,000	Novopecherskyi Pasazh/Dosvid 2002
Smart Plaza Obolon	11,000	A Development
2019-2020		
River Mall	59,000	Vilna Ukraina
Retroville	80,700	Stolitsa Group
Rive Gauche (Phase II)	50,000	Immochan
Kyiv Mall	58,000	Dilais
Lukianivka Mall	47,000	Arriano Real Estate
Ocean Mall	70,000	Megaline
Sky Mall (Phase III)	39,000	Prizma Beta
Smart Plaza Holoseevo	15,000	A Development
Halted		
Respublika	135,000	K.A.N. Development

Source: CBRE Ukraine

Vacancy and Rents

Despite new additions to the stock in H12018, average vacancy continued the downward trend by inching from 4.5% down to 4%, as the new schemes were delivered with almost full occupancy. Demand for prime retail locations remained strong, with prime vacancy standing at 0%-2% range. Prime rent levels continued to escalate, posting a healthy growth of approx. 8%-10% YTD. Even though the growth of USD-denominated rents was amplified by UAH appreciation, UAH-denominated rents continued to be used ever more rarely, affected by limited new quality stock. Prime rentals stood in the \$65-\$95/sqm/month range, with secondary rates ranging between \$32-\$50/sqm/month and their upper bound growing by ca.10% YTD.

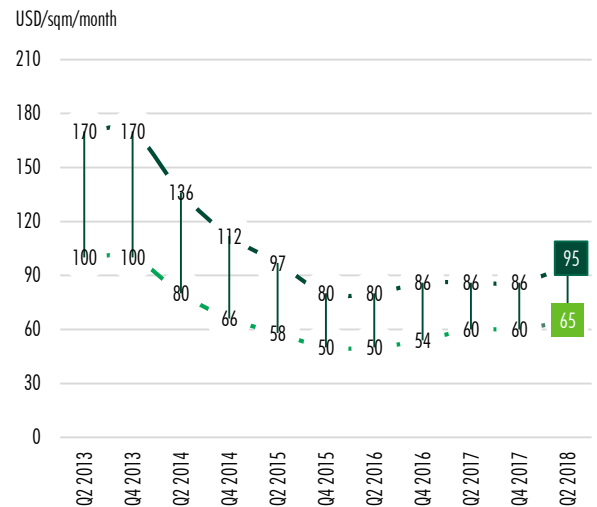
Investment

In H12018 one notable transaction was recorded on the market with Victoria Gardens SC (50,000 sqm GLA) in Lviv being acquired by Dragon Capital Investments Limited. Moderately growing demand for prime retail properties also assisted in the compression of prime yields which reached 11.75% (-0.25pp YTD). Accelerating rental incomes have the potential to increase investor interest in retail assets, with particular focus on prime and secondary schemes with lower competition.

Regions

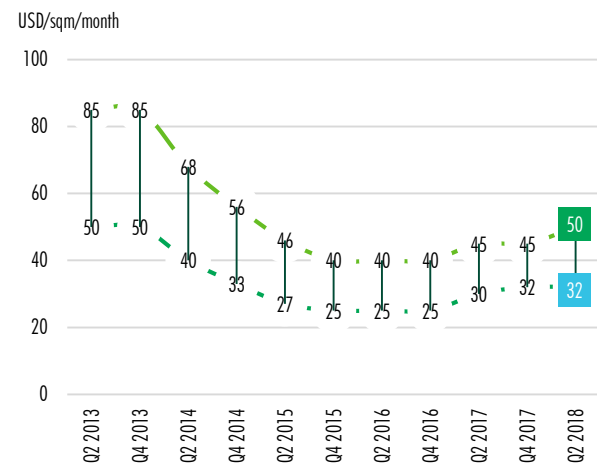
Regional organized retail turnover continued to show strength, advancing by 5.7% y-o-y over the last 6 months on the back of 10% y-o-y increase in real disposable income. Grocery retailers were the fastest expanding sector and as of the end of last year accounted for ca. 50% (+0.3 pp y-o-y from 2016) of Ukraine’s retail sales. Enjoying local market expertise, ATB Market LLC and Fozzy Group networks captured the largest value share in 2017, holding 6.6% and 5.6% respectively and continuing to actively grow their regional presence. In the DIY sector, two Epicentr K stores launched in the cities of Odesa

Figure 4: Base Rents Range in Kyiv Prime Schemes



Source: CBRE Ukraine

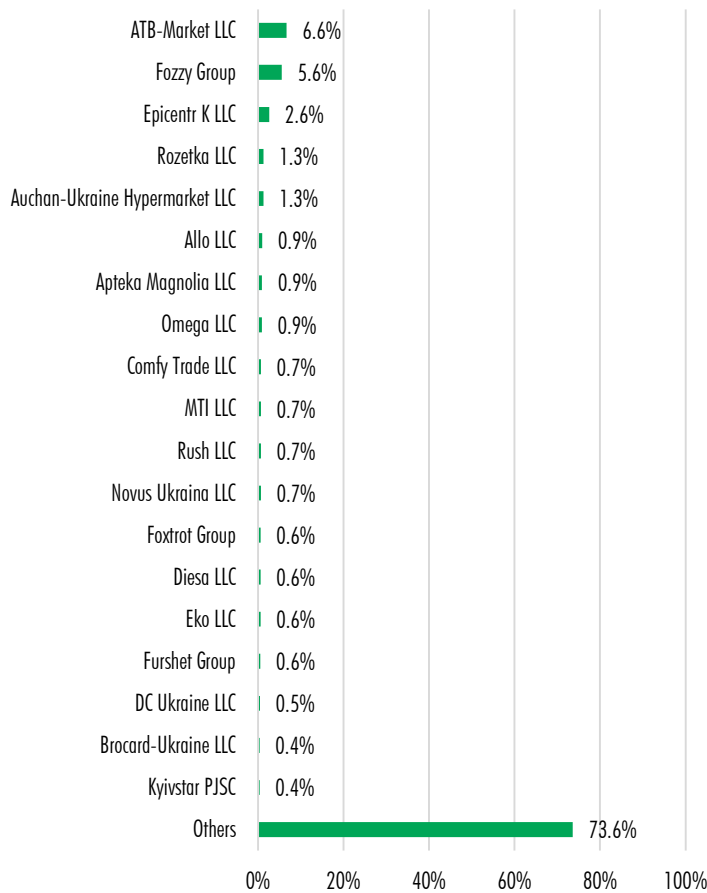
Figure 5: Base Rents Range in Kyiv Secondary Schemes



Source: CBRE Ukraine

(35,000 sqm) and Mykolaiv (42,000 sqm), expanding the chain to almost 50 stores across the country. Retailers Eva (Rush LLC) and Watsons (DC Ukraine LLC) remain dominant on the drogerie market, with the former totaling ca.700 stores countrywide as of the end of H12018 (+100 stores YTD). The regional fashion segment recorded the first *Usupso* (Japanese Homeware and Department) store open its doors in Ukraine in Odesa’s Riviera SC, becoming the only new international brand in 2018 to enter a regional city before Kyiv. The regional new supply was represented by a small-sized Woodmall SC (10,000 sqm) in Khmelnytskyi. However, regional retail space developments set for the next few years are

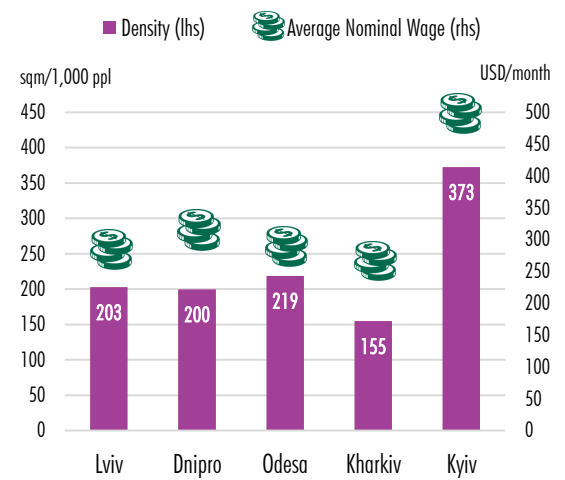
Figure 6: Company Shares of Retailing by National Brand Owners (Retail Value RSP* in UAH mio excl. Sales Tax)



* RSP – retail selling price
Source: Euromonitor International

estimated at ca. 300,000 sqm. Understating the growing importance of leisure and entertainment components in enhancing customer experience and footfall, Dafi SC and Most-City SC in Dnipro commenced renovation and expansion works in H12018. In the meantime, scarce quality retail space puts pressure on rental rates in the largest cities, as retail density per 1,000 habitants stayed broadly the same in locations such as 220 sq in Odessa, 200 sqm in Dnipro, 200 sqm in Lviv, and 155 sqm in Kharkiv.

Figure 7: 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 H1 2018

ANNOUNCED FOR DELIVERY	GLA, sqm	CITY	DEVELOPER
Delivered in H12018			
Woodmall	10,000	Khmelnyskyi	Ukrainian Building Capital
H22018			
Gagarin Plaza (Phase II)	20,000	Odesa	Atlanta Invest Development
Harmata	6,000	Zaporizhzhia	Local developer
2019			
Nikolskiy	52,000	Kharkiv	Budhouse Group
Arsen	33,000	Lviv	Proekt Center
Les Vignes (Phase I)	17,000	Odesa	Immochan
Ornava (Phase II)	25,000	Ternopil	Rodyna Invest
Ternopil Mall	50,000	Ternopil	Local developer
Yessa	39,000	Odesa	Budhouse Group
2019 (Renovation)			
Dafi	16,000	Dnipro	Dafi
Most City	25,000	Dnipro	Alef Estate
2020			
Fabrika 2	68,000	Zaporizhzhia	Budhouse Group
Project			
Shopping Scheme	100,000	Zaporizhzhia	DELTA Ukraine

Source: CBRE Ukraine

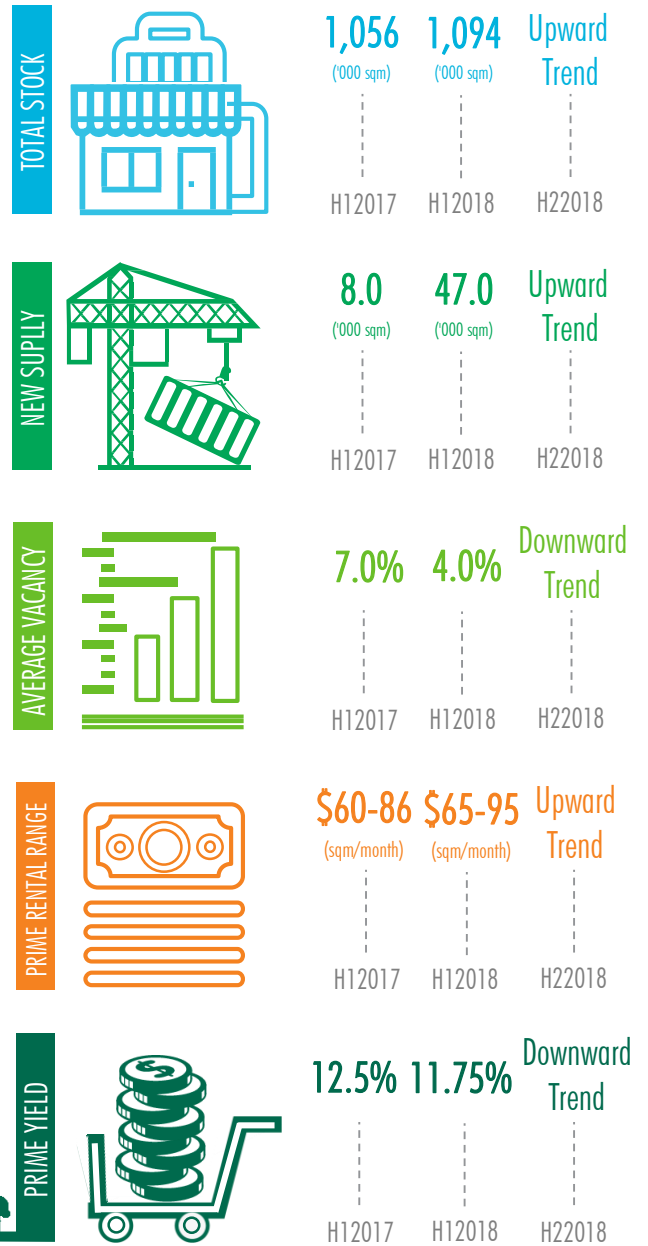
Outlook

Should the current tempo of domestic economy's expansion continue, the forthcoming H22018 will be marked with another uplift in consumer demand and, as a result, in retail turnover. After years-long wait-and-see position, the following brands are expected to finally make their way into the Kyiv market by the end of 2018: *Decathlon* (French specialist clothing brand), *H&M* (Swedish mid-range fashion brand), and *IKEA* (Swedish homeware and department store). At the same time, 12 retail schemes with almost 600,000 sqm in total are currently under construction and are set for delivery in the next few years (excluding halted construction of Respublika SEC). With expansion strategies ever increasing among international retailers, average market vacancy will be kept in check or may shrink further, thereby creating further upward pressure on prime rental rates. Capital rates are also expected to further solidify, as more international players seek to enter the market, with low interest rate international lending becoming restrictively available for prime investment transactions in Ukraine.



Source: CBRE Ukraine

Key Office Market Indicators Summary and Outlook



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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.



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