

Kyiv & Regions Retail Market, H12019

Rental Rates Grow on the Back of Low Vacancy and Delayed New Supply



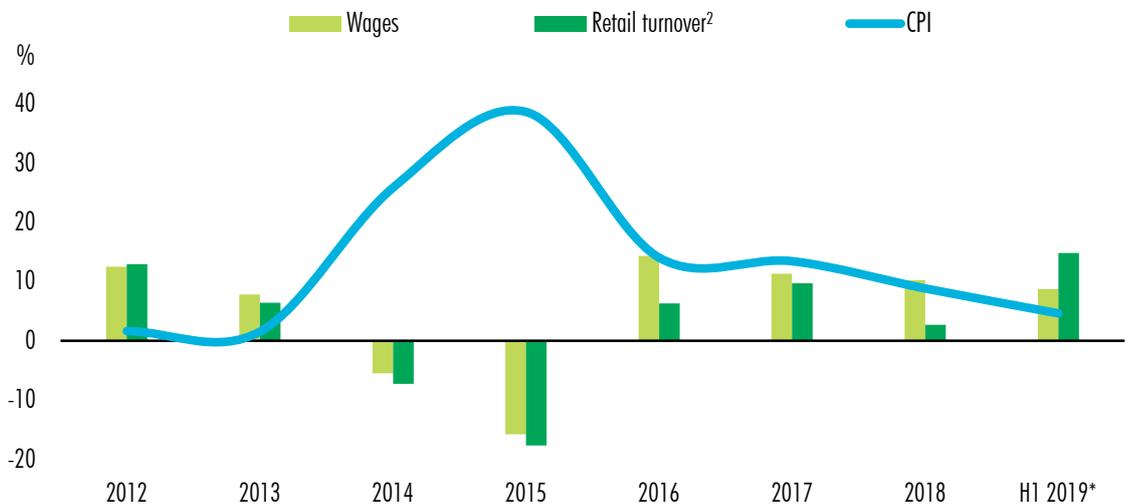
Demand

In H12019 the economy was showing further improvements, posting a 2.5% real GDP growth according to the State Statistics Office. The retail property market reflected these positive economic trends. Retail turnover grew by 14.8% y-o-y, following the increase in real wages of 8.7% y-o-y, coupled with inflation slowing down to 4.6% (-4.2 pp YTD). In addition, the national currency strengthened against the US dollar in H12019 by +5% YTD and +0.6% y-o-y .

The growth of real wages and retail turnover contributed to the expansion of food retailers in Kyiv. Thus, Silpo opened 4 additional supermarkets in Kyiv and Kyiv region, as well as acquired 2 seafood stores of Okeaniya in Kyiv. German

wholesale and food retailer *Metro Cash&Carry* announced their plans to increase the number of its supermarkets by 6 in H22019. In the high-end grocery retail segment, Novus is going to expand further in Kyiv and Kyiv region by opening 7 new stores by the end of 2019. At the same time, *Auchan* closed one of its supermarkets in SkyMall, which was subsequently leased by Novus. Nevertheless, the French retailer is focusing on developing the new small format *My Auchan* stores, as well as the already operating e-commerce segment. In H12019 the retail market in Ukraine stayed on radars of international retailers, although very few entries took place due to scan availability of retail space delivery starting in H22019 onwards.

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

Thus, over H12019 the handful of new brands that entered Ukraine were Claudie Pierlot (French Luxury and Business brand), MISSHA (Korean Cosmetics brand), long-awaited Decathlon (French Sports Goods brand), and WEILL (French Luxury and Business Fashion brand). It is expected that continued growth of retail turnover and disposable income on the back of accelerating GDP will further attract more market players to the Kyiv retail market. Namely, in H22019 several international brands are expected to make their way into Kyiv including *Home&You*, *Carter's*, *The North Face*, *Kipling*, *Eataly*, *AVVA*, and *FLO* among others. On the whole, the imminent sharp increase in new supply will definitely facilitate new market entries, as post-war supply draught is officially over.

Supply

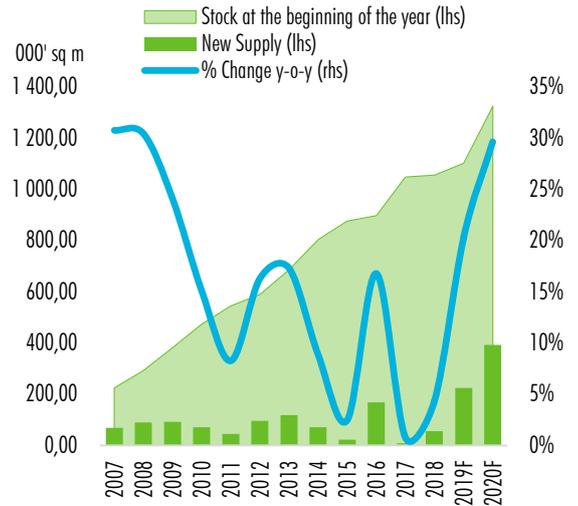
In H12019 the new supply included two neighborhood centers Smart Plaza Obolon (10,000 sqm) and Oasis (13,200 sqm). This, however, did not have a significant impact on the volume of total professional stock, which remained at 1.13 mio sqm (ca. +2.1% YTD). Pipeline for H22019, on the other hand, looks very different, with Blockbuster Mall Phase I (100,000 sqm), River Mall (54,700 sqm), and April Mall Phase II (45,700 sqm) all scheduled to open in this period. An additional 393,000 sqm of new supply are expected in 2020, which includes Respublika (135,000sqm), Ocean Mall (100,000 sqm), Retroville (80,700 sqm), Rive Gauche Phase II (50,000 sqm), and White Lines Smart Plaza Holosievo (27,000 sqm). Following the delivery of projects currently under construction, the total retail stock will increase to 1.33 mio sqm in H22019, further rising on the back of a major wave of supply to 1.72 mio sqm by the end of 2020.

Table 1: Cross-Border Market Entry in Kyiv in H1 2019

BRAND	RETAIL SECTOR	ENTRY LOCATION
Claudie Pierlot	Luxury and Business	Gulliver
MISSHA	Other	Lavina Mall
Decathlon	Specialist Clothing	Retail Park Petrivka
WEILL	Luxury and Business	Gulliver

Source: CBRE Ukraine

Figure 2: Kyiv Shopping Center Stock and New Supply



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

Table 2: Key Shopping Centers in the Pipeline

COMPLETION	GLA, SQ M	DEVELOPER
Delivered in H1 2019		
Oasis	13,200	Megaline
Smart Plaza Obolon	10,000	A Development
H22019		
April Mall (Phase II)	45,700	Kyivproekt Development
Blockbuster Mall (Phase I)	100,000	Mandarin Plaza/Megaline
River Mall	54,700	Vilna Ukraina
2020		
Respublika	135,000	K.A.N. Development
Ocean Mall	100,000	Megaline
Retroville	80,700	Stolitsa Group
Rive Gauche (Phase II)	50,000	CEETRUS
White Lines (Smart Plaza Holosievo)	27,000	A Development
2021		
Lukianivka Mall	47,000	Arricano Real Estate
Sky Mall (Phase III)	39,000	Prizma Beta
Projected		
Kyiv Mall	58,000	Dilais
Lesnaya Mall	220,000	Mandarin Plaza
Blockbuster Mall (Phase II)	75,000	Mandarin Plaza/Megaline
Pobeda Mall	350,000	Mandarin Plaza
Hippodrome	450,000	Mandarin Plaza

Source: CBRE Ukraine

Vacancy & Rents

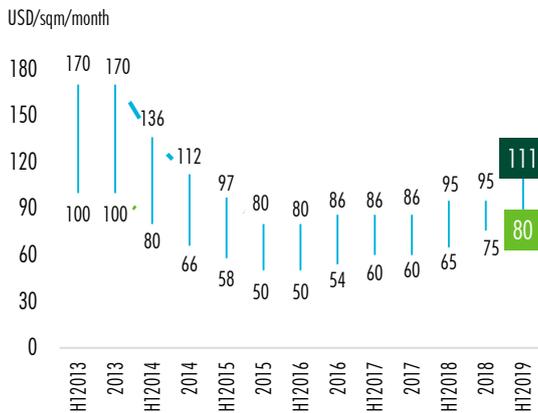
Average vacancy decreased to 2.7% (-0.3pp YTD) following meager amount of new completions in H12019. With strong demand for prime locations, prime vacancy decreased slightly to notional ca 1%. As the market was waiting for new deliveries, landlords of the best retail properties were increasing asking rates for the scant vacant space. As a result, prime rent levels rose to \$80-111/sqm/month (+6.6% for lower bound and +16.8% for upper bound YTD). Secondary rates varied in the \$44-\$63/sqm/month range (+5% YTD).

Coffee & Restaurants

In the Coffee& Restaurants sector the major players are represented by both local and international companies. Aroma Kava is one of the largest espresso bar chains (more than 200 points of sale operating in more than 20 cities in Ukraine), whereas Pizza Celentano

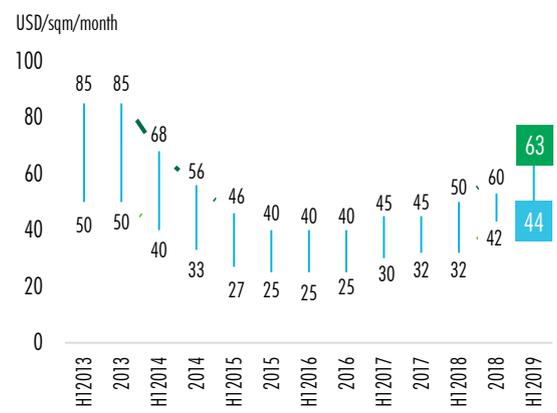
is the largest casual dining restaurant chain in Ukraine (more than 100 restaurants in 54 cities in Ukraine). Going beyond traditional shopping center locations, new office centers and mixed-use properties are increasingly providing a wider base for C&R sector by planning lobby areas to host food zones containing espresso bars and restaurants. Additionally, food hall concept is gaining momentum in Kyiv, as proved by a sizeable, high quality food hall being developed as a part of former Arsenal Plant is in the capital's downtown. The new ca. 2,000 sqm venue will host multiple restaurants, bars and cafes in a freshly renovated, beautiful historical building, which is scheduled to be opened by the end of 2019. Two more such food hall concepts are in the making, one by Good Wine on Mezhyhirska St. and another – by Smart Holding under Troyitska Square, with developers planning to launch the projects in the not so distant future.

Figure 3: Base Rents Range in Kyiv Prime Schemes



Source: CBRE Ukraine

Figure 4: Base Rents Range in Kyiv Secondary Schemes



Source: CBRE Ukraine

Table 3: Major Coffee & Restaurants Chains Operating on Ukrainian Market

Restaurant family	Parent Company	Format	Total number of restaurants in Ukraine	Origin	Ч
Aroma Kava	Aroma Kava	espresso bar	Over 200	local	Ukraine
Pizza Celentano	Fast Food Systems	pizzeria	Over 100	local	Ukraine
McDonalds	McDonalds Corporation	fast-food	Over 80	international	USA
Domino's Pizza	Domino's Pizza Inc.	pizzeria	43	international	USA
Puzata Khata	Puzata Khata	Ukrainian cuisine	37	local	Ukraine
Sushiya	USG Holding	Japanese cuisine	37	local	Ukraine
Mafia	Mafia	Japanese/Italian cuisine	25	local	Ukraine
KFC	Yum! Brands	fast-food	20	international	USA
Kartoplyana Khata	Fast Food Systems	Quick&Casual	Over 17	local	Ukraine
Coffee Life	Coffee Life	espresso bar	17	local	Ukraine
Pechena Kartoplya	Pechena Kartoplya	fast food	16	local	Ukraine
Salateira	Salateira	fast-healthy restaurant	16	international	Ukraine
Livski plyatski	«IFEST»	café/bakery	12	local	Ukraine

Source: CBRE Ukraine

Regions

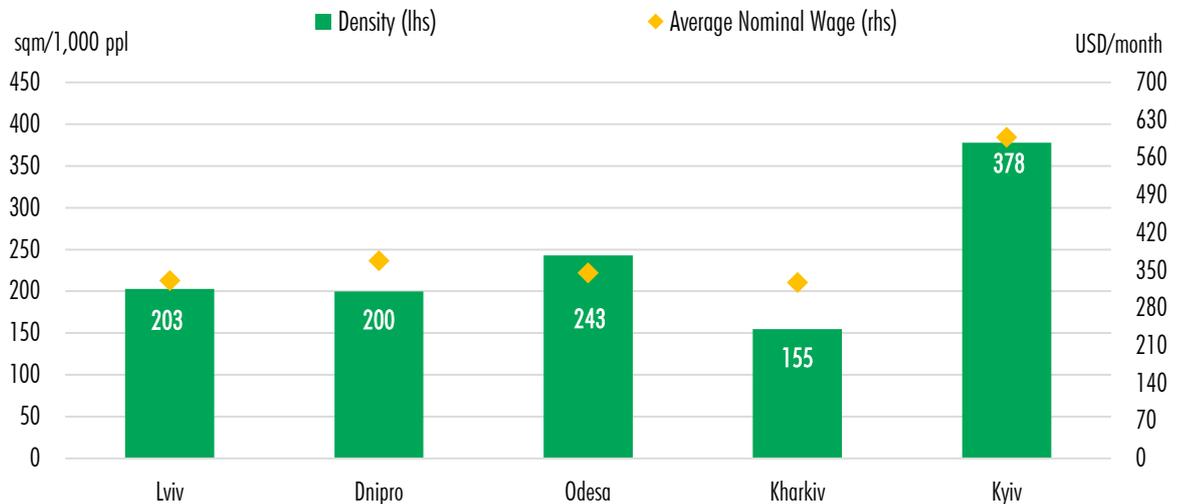
Regional organized retail turnover increased by 17% y-o-y driven by strengthening of the national currency and growth of disposable income. In H12019 the food retail segment experienced further growth with multiple new store openings and optimizations or upgrades of operating ones. In particular, *ATB* opened 35 new supermarkets and carried out reconstruction of another 16, thereby bringing total number of stores to 1,015 in late June 2019 (+7% y-o-y). The retailer is going to expand further in the regions by opening further 100 stores and completing reconstruction of another 50 till the end of the year. *Varus* opened 3 new stores in Dnipro, Kryvyi Rih, and Zaporizhzhia. At the same time, retailers have been experimenting with new formats. Specifically, *Novus* and *Auchan* are opening smaller, Express-format stores in regional centers. *Silpo* are spearheading the trend by operating several locally branded chains in style of *Wild West*, *Post Office*, *Hippie*, *Jazz* and others, embodying different designs and conceptual ideas across Ukraine. A notable additional to the regional food retail mix is the first opening of *Eurospar*, part of SPAR Retail Group, whose first store opened in Vinnytsia. Contrary to the general trend, *Furshet* is planning to close all of its regional stores and focus on Kyiv only, as the chain’s position has been weakening, especially in the regions, for a number of years. In H12019 new shopping center supply in the regions amounted to 29,000 sqm including Spartak SC (23,000 sqm) in Lviv and Panorama (Harmata) SC (6,000 sqm) in Zaporizhzhia. Regarding expected completions, Ornava Phase II (25,000 sqm) and

Ternopil Mall (50,000 sqm) in Ternopil are planned for delivered in H22019. Additionally, some projects underwent renovation including Dafi (16,000 sqm), Most City (25,000 sqm) in Dnipro. Alexander Plaza (41,000 sqm) in Zaporizhzhia and Nikolskiy (52,000 sqm) in Kharkiv are expected for completion in 2020. In the meantime, scarcity of quality retail space puts pressure on rental rates in larger cities, as retail density per 1,000 habitants stayed broadly the same in locations such as Dnipro (200 sqm) and, Kharkiv (155 sqm), with a slight increase in Odessa (250 sqm vs 220 in H12018) and in Lviv (230 sqm vs 200 in H12018).

Investment

Only one investment transaction in the retail sector took place in H12019, with Dragon Capital purchasing Smart Plaza Obolon (15,000 sqm) in Kyiv. For comparison, in H12018 the investment volume in the retail sector was also made up of a single transaction when Dragon Capital acquired Victoria Gardens SC (48,230 sqm) in Lviv. Furthermore, in H12019 Respublika SC (135,000 sqm) was purchased by Soltex Capital with a view to complete a landmark development, construction of which had been halted mere months before completion back in 2014. Prime yield in retail sector remained flat at 11.75%, although slight contaction is expected by the end of the year.

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
DELIVERED IN H12019	29 000		
Spartak	23 000	Lviv	Lvivbudmaks-invest
Panorama (Harmata)	6 000	Zaporizhzhia	Local developer
2019	88 000		
APPOLO (Phase II)	13 000	Dnipro	UMK
Ornava (Phase II)	25 000	Ternopil	Rodyna Invest
Ternopil Mall	50 000	Ternopil	Local developer
2019 (Renovation)	41 000		
Dafi	16 000	Dnipro	Dafi
Most City	25 000	Dnipro	Alef Estate
2020	93 000		
Alexander Plaza	41 000	Zaporizhzhia	Alexander Group
Nikolskiy	52 000	Kharkiv	Budhouse Group
Project	236 000		
Ostriv (Phase II)	18 000	Odesa	OTD
Riviera Shopping City (Phase III)	5 000	Odesa	Argo Real Estate Opportunities Fund
Fabrika 2	57 000	Zaporizhzhia	Budhouse Group
Les Vignes (Phase I)	17 000	Odesa	CEETRUS
Shopping Center	100 000	Zaporizhzhia	DELTA Ukraine
Yessa	39 000	Odessa	Budhouse Group

Source: CBRE Ukraine

Outlook

In expectation that market fundamentals will continue to improve alongside sustained economic growth in the forthcoming years, interest from international retailers and brand holders will continue to propel the development activity in the medium run. However, the delivery of new superregional shopping centers will inevitably pose new challenges to the retail scape in Kyiv. First of all, these large schemes will affect the competitiveness of the existing shopping centers. In particular, the delivery of Blockbuster Mall Phase I, in H22019 might somewhat reorient consumer flows towards the newly opened center away from other schemes in its primary catchment area. Secondly, resilience of the large, superregional shopping centers in Kyiv will be undergoing its trial period in the next several years. As shopping experience in general is transforming from the large mall floor to the small smartphone large centers are small

smartphone screen, facing an increasing competition for customer time and wallet in a number of new ways. A large entertainment area will be key to drawing and retaining a visitor for a long time in a large SEC, as online shopping and local neighborhood centers are unable to match such offering. Otherwise, inconvenience of access and exit, the need to attract large amounts of high quality international brands and a large low-paying entertainment zone will continue to test sustainability of such schemes, of which 1 exists, one is to be imminently delivered, 1 is under active construction, 1 is frozen incomplete, and at least 3 more are in the making, with their total estimate size of ca. 1.5 mio sqm. Once/if all of these giants are delivered over a relatively short period of time, an excess of retail stock in the city will definitely be on the cards.

In the meantime, both landlords and retailers continue to implement new concepts and change formats in order to stay competitive. Along with the rapid development of e-commerce, major retailers are launching on-line stores. In particular, Inditex Group is starting online sales in Ukraine in September after successfully launching the service in Europe, Africa, and South America. Expansion of the product mix is another trend in the retail segment, which is ultimately leading to the growth in the unit size of some fashion retailers and downsizing of others, mainly household goods and electronics retailers, turning them into predominantly pick-up centers for online purchases. Additionally, it is expected that Coffee & Restaurants sector in Ukraine will be undergoing further transformation, impacted by the development of mixed-use properties, which are designed to accommodate large areas for coffee shops and restaurants in addition to the traditional food courts.

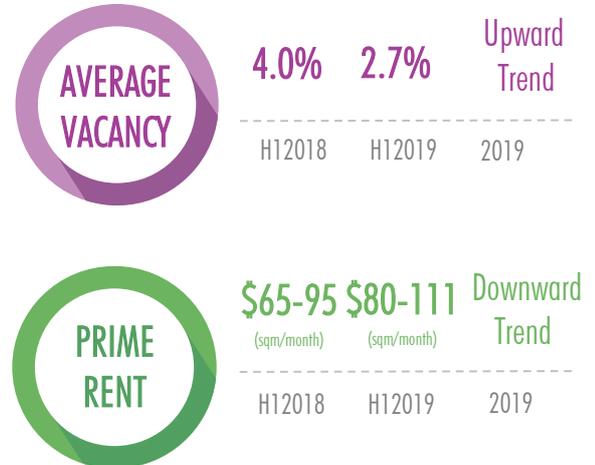
Key Retail Market Indicators Summary and Outlook



Table 5: Potential New Entries in H2019

BRAND	RETAIL SECTOR	ENTRY LOCATION
Kipling	Specialist Clothing	Blockbuster Mall
Carter's	Specialist Clothing	n/a
Home&You	Homeware and Department Stores	n/a
The North Face	Specialist Clothing	River Mall
Eataly	Coffee and Restaurants	n/a
AVVA	Mid-Range Fashion	Blockbuster Mall
FLO	Specialist Clothing	n/a

Source: CBRE Ukraine



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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.

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