

Kyiv & Regions Retail Market, 2019

Prime Rent Growth on the Back of Strong Demand for High-Quality Spaces



Total Stock ▲
1.28 mio
sqm (+16% y-o-y)



Vacancy ▲
4.5%
(+1.5 pp y-o-y)



Prime Rent ▲
\$85-115
sqm/month

Demand

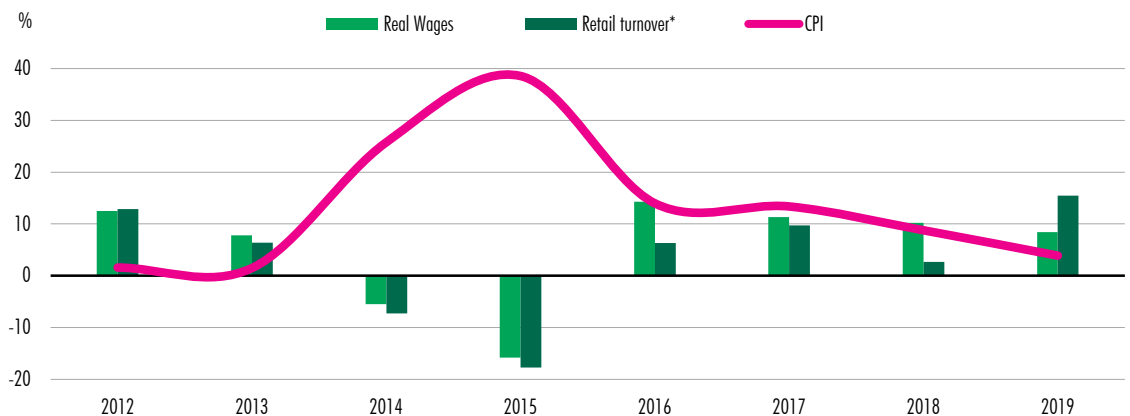
In 2019 Kyiv retail market demonstrated further expansion primarily on the back of an upsurge in retail turnover (+15.5% y-o-y) following a three-year-period of continuous y-o-y growth. Real wages in the capital city increased by 8.4% y-o-y in 2019, posting a one-digit growth figure for the first time since 2016, which was still significant enough to boost consumption. Moreover, demand expansion in Kyiv was supported by significant deceleration of Consumer Price Index from 8.8% y-o-y in December 2018 to 3.9% in December 2019, owing to sound monetary policy of the NBU over the past 3 years.

Increased purchasing power and overall improved market conditions contributed to further expansion of food retailers in Kyiv. Thus, *Billa* opened 6 new supermarkets in the capital city and its suburbs in 2019, a strategy adopted in 2017 when the chain closed most of its stores in other

regions of Ukraine. Novus increased the number of supermarkets by 3 in 2019, one of which replaced Auchan in SkyMall and became the flagship store of the company (12,000 sqm). Besides, Novus intends to open another large-size shop (10,600 sqm) in Retroville, which is to be delivered in 2020. Fozzy Group's Silpo opened 12 new supermarkets in 2019 with unique interior designs (in styles of optical illusion, active sports, The Silk Route, etc.) in order to be modern and competitive in the fight for customers.

In the fashion segment the number of new international brands equaled 11 in 2019, down from 20 in 2018 mainly due to political uncertainty on the back of double elections in Ukraine, which clouded business forecasts. Luxury & Business Fashion remained the leading

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



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

sector in the structure of new entries (36% in 2019) albeit decreasing its share by 29 pp y-o-y. Mid-range Fashion retailers held the second place with 18%, seeing their share reduced by 4 pp y-o-y, as more cross-border brands of Specialist Closing (+9 pp y-o-y) and Other sectors (+18 pp y-o-y) entered the Ukrainian market. Gulliver and Lavina Mall welcomed the largest numbers of new international retailers in 2019 (3 in each), followed by River Mall with 2 first openings. The most notable new entries included Supreme Spain (Spanish Luxury and Business Fashion brand) in Ocean Plaza, The North Face (American Sportswear brand) in River Mall, Decathlon (French Sportswear brand) in Retail Park Petrivka, Claudie Pierlot (French Luxury and Business brand) in Gulliver and MISSHA (Korean Cosmetics brand) in Lavina Mall. Meanwhile, Estonian retailer Monton left the market in 2019 after almost 20-year presence in Ukraine.

Supply

Annual volume of new development completions amounted to 178,000 sqm (more than tripled y-o-y), thereby increasing total competitive stock by 16% y-o-y to 1.28 mio sqm. In 2019 new supply was represented by Blockbuster Mall (100,000 sqm), River Mall (54,700 sqm), Oasis (13,200 sqm) and Smart Plaza Obolon (10,000 sqm), with the former being only technically opened in November. Furthermore, several new shopping centers were delivered in Kyiv region in Cherry Mall (13,000 sqm) in Vyshneve and Mark Mall (7,800 sqm) in Brovary. Meanwhile, increasing competition triggered renovation of existing shopping centers, which became outdated. Thus, Karavan was reconstructed and opened in a new outlet center format. . Similarly, at the end of 2019 Dream Town announced the start of renovation process with tenant-mix optimization aimed at expanding the entertainment zones and replacing the aquapark with a gym in order to attract more visitors. According to developers' statements, 2020 is set to bring ca. 270,000 sqm of new retail stock, including Ocean Mall (100,000 sqm), Retroville (80,700 sqm), Rive Gauge II (56,800 sqm) and New Ray (34,500 sqm). Furthermore, even larger amount of new supply is expected to be delivered in 2021 (ca. 300,000 sqm), increasing competition between shopping centers. The delivery of the new large schemes in virtually all urban districts

Table 1: New Brand Entries Structure by Retail Sector in 2019

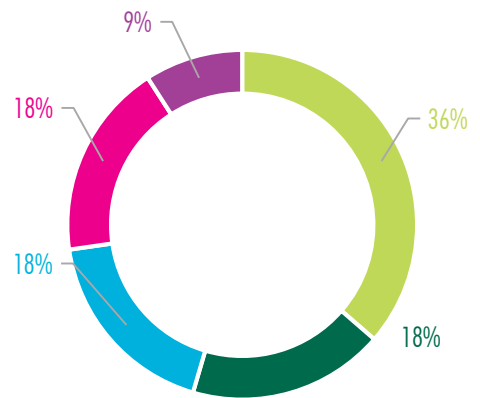


Table 1: Cross-Border Market Entry in Kyiv Shopping Centers in 2019

BRAND	RETAIL SECTOR	ENTRY LOCATION
The North Face	Specialist Clothing	River Mall
AVVA	Value and Denim	River Mall
Decathlon	Specialist Clothing	Retail Park Petrivka
Supreme Spain	Luxury and Business	Ocean Plaza
Pylones	Other	Lavina Mall
MISSHA	Other	Lavina Mall
Esprit	Mid Range Fashion	Lavina Mall
Escada	Luxury and Business	Kyiv Passage
WEILL	Luxury and Business	Gulliver
InWear Martinique	Mid Range Fashion	Gulliver
Claudie Pierlot	Luxury and Business	Gulliver

Source: CBRE Ukraine

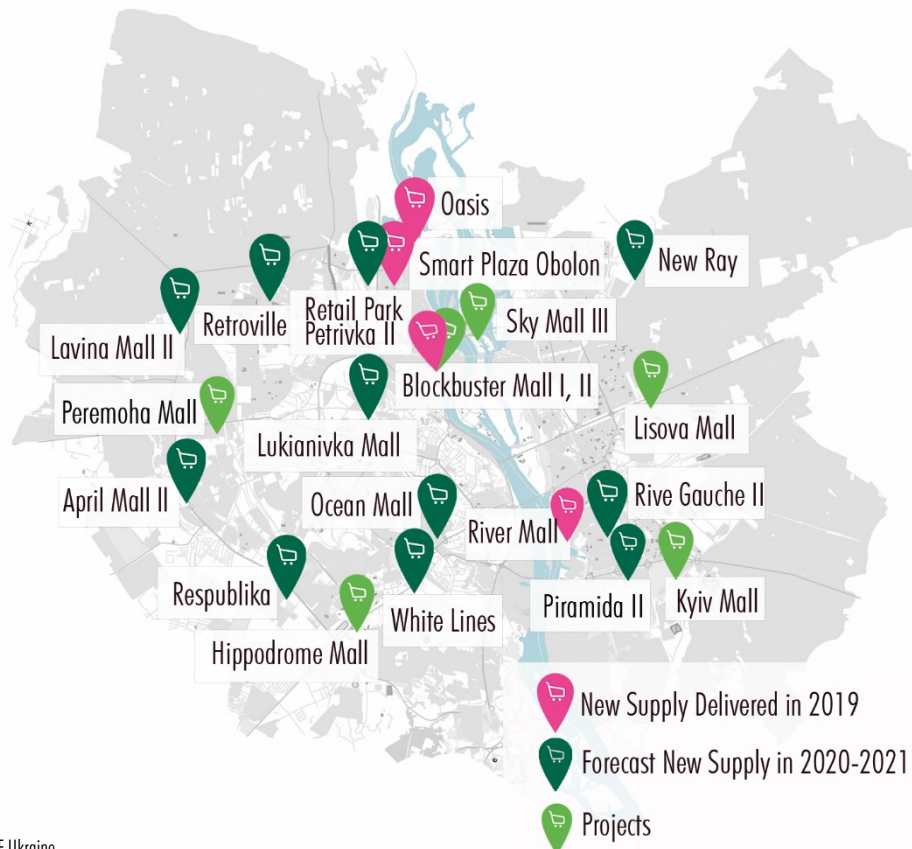
may redirect consumer flows, potentially decreasing footfall in the existing properties. This trend is bound to make existing and ageing shopping centers increase entertainment areas, improve tenant mix, renovate old-fashioned exterior/interior design, etc.

Table 2: New Supply in Kyiv in 2019 and Key Shopping Centers in the Pipeline as of the end of 2019

COMPLETION	GLA, SQ M	DEVELOPER
Delivered in 2019	177,900	
Oasis	13,200	Megaline
Smart Plaza Obolon	10,000	A Development
Blockbuster Mall (Phase I)	100,000	Mandarin Plaza/Megaline
River Mall	54,700	Vilna Ukraina
2020	272,000	
Ocean Mall	100,000	Mandarin Plaza/Megaline
Retroville	80,700	Stolitsa Group
Rive Gauche (Phase II)	56,800	CEETRUS
New Ray	34,500	Build Commerce Group
2021	301,700	
Lukianivka Mall	47,000	Arricano Real Estate
April Mall (Phase II)	49,600	Kyivproekt Development
Respublika	135,000	K.A.N. Development
Lavina Mall (Phase II)	20,000	Mandarin Plaza/Megaline
Piramida (Phase II)	11,000	Dragon Capital Property Management
Retail Park Petrivka (Phase II)	7,100	CEETRUS
White Lines (Smart Plaza Holosievo)	58,000	Dilais
Project	840,200	
Kyiv Mall	65,200	Delice
Lisova Mall	220,000	Mandarin Plaza/Megaline
Blockbuster Mall (Phase II)	75,000	Mandarin Plaza/Megaline
Peremoha Mall	150,000	Mandarin Plaza/Megaline
Hippodrome Mall	293,000	Mandarin Plaza/Megaline
Sky Mall (Phase III)	37,000	Prizma Beta

Source: CBRE Ukraine, open sources

Kyiv New Supply in 2019 and Pipeline

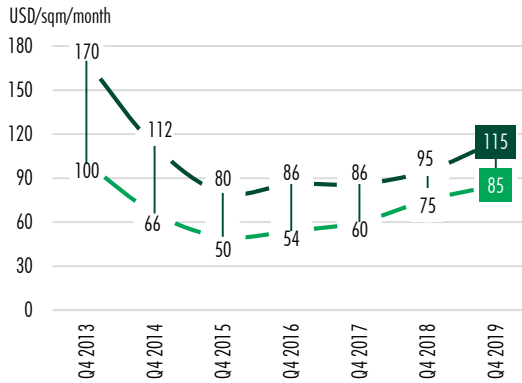


Source: CBRE Ukraine

Vacancy & Rents

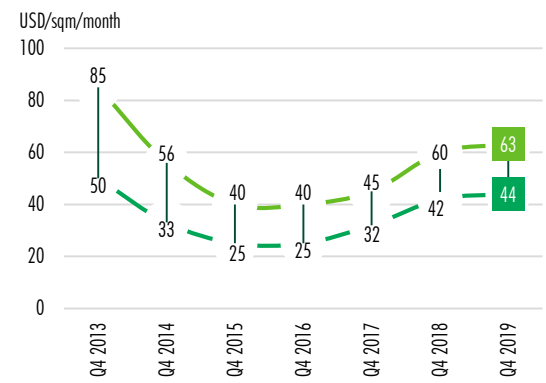
Average vacancy rate on the market nudged upwards to 4.5% (+1.5 pp q-o-q) in Q4 2019, as River Mall entered the market almost fully leased, and the first phase of Blockbuster Mall was delivered with a large share of spaces pre-leased. **Prime** rental rate in Kyiv ranged between **\$85-115/sqm/month** in 4Q 2019, posting 13-21% y-o-y growth due to strong demand for high-quality retail spaces in best locations amidst increasing consumer purchasing power in Ukraine. **Secondary** base rents followed the same trend, albeit posting smaller growth (+5% y-o-y), oscillating between **\$44-63/sqm/month** in Q4 2019.

Figure 4: Base Rents Range in Kyiv Prime Schemes



Source: CBRE Ukraine

Figure 5: Base Rents Range in Kyiv Secondary Schemes



Source: CBRE Ukraine

Regions

Continued growth of real wages (+9.8% y-o-y in 2019) contributed to further expansion of consumer demand in Ukraine. Retail turnover accelerated from a healthy 5.6% y-o-y in 2018 to an impressive 11.6% in 2019. The highest growth indicators were recorded in Kyiv (+20.8% y-o-y in 2019), Vinnytsia (+19.1% y-o-y) and Ternopil (+16.0% y-o-y) regions. Increased consumer spending spurred entry of international retail chains into regional markets. Polish retail footwear company CCC opened its first stores in Odesa (City Center SC), Cherkasy (Lubava SC) and Dnipro (NEO PLAZA SC). The latter also welcomed first in the city brands of LPP Group, namely Cropp and Sinsay. Japanese retail chain Miniso entered the markets of Dnipro (in Merlin SC), Kharkiv (at 45 Sumska St.) and Zaporizhia (in City Mall SC),

whilst another Japanese brand USUPSO opened its first store in Vinnytsia (in Sky Park SC). Lastly Turkish retail chain LC Waikiki opened its first store in Mariupol (Port City SC).

Food retail was also active in 2019 characterized by multiple new store openings. ATB opened 88 new supermarkets, increasing the total number of stores in Ukraine by ca. 8% y-o-y to 1,077. Fozzy Group presented 11 new Silpo supermarkets in different design styles, simultaneously renovating existing units. Another addition to the regional food retail mix was the first opening of Eurospar in Vinnytsia. Reversing the general trend, Furshet started to close its stores in the regions following the strategy of focusing on Kyiv and its region alongside Western Ukraine.

Table 3: Major Food Retailers & Their Brands Operating on the Ukrainian Market

RETAILER	SUPERMARKET FORMAT	HYPERMARKET FORMAT	CONVENIENCE STORE FORMAT
ATB	ATB	-	ATB Express
Fozzy Group	Le Silpo, Favore, Silpo	Fozzy C&C	Fora, Thrash!
Auchan Group	-	Auchan	My Auchan
Metro C&C	-	METRO	-
Tavria V	Cosmos, Tavria V	-	-
Novus	NOVUS	-	NOVUS Express
Retail Group	Velyka Kyshenia, VK Select	Velmart	VK Express
VolWest Group	SPAR, Nash Kraj, Eurospar	-	Nash Kraj Express, SPAR Express
Furshet Group	Gurman Furshet, Furshet	-	-
EKO Market	EKO Market	EKO Market	EKO Market
Omega	Varus	-	Varus-Express
Billa Ukraine	Billa	-	-
Lvivkholod	Rukavychka	-	Rukavychka

Investment

Total volume of investment transactions on the retail market in Ukraine amounted to ca. \$85mio in 2019 (vs ca. \$98mio in 2018), being though significant enough if taking into account political uncertainty in the period in Ukraine. It should be noted that the retail sector ranked first in commercial real estate, with office and warehouse sectors following with \$73mio and \$61mio, respectively. Among key transactions, Soltex Capital purchased the 80% completed Respublika SC in Kyiv for the declared amount of ca. \$29mio. Additionally, Dragon Capital acquired Aladdin SC (16,500 sqm) and Smart Plaza Obolon SC (13,000 sqm) in Kyiv. Prime yields on the retail market remained broadly stable in 2019 at 11.75%.

Outlook

According to developer announcements, the 2020-2021 period is expected to demonstrate considerable amount of new supply (ca. 570,000 sqm), including Ocean Mall (100,000 sqm), Retroville (80,700 sqm), Rive Gauge II (56,800 sqm), Respublika (135,000 sqm), the second phase of April Mall (50,000 sqm) and others. If the announced new properties are delivered as intended, vacancy rate will move upwards, potentially decreasing rental rates. This potential new supply if delivered will likely reorient consumer flows and will increase competition between shopping centers.

Along with the rapid growth of e-commerce, retailers will further implement omni-channel strategies like Zara and Puma brands, which launched online stores in Ukraine in September and October 2019, respectively. Provided that purchasing power continues to grow and quality malls are delivered, more premier international brands will be willing to enter the market, following the latest long-awaited entry of Swedish H&M in 2018. Thus, over the 2020-2021 we expect more than 20 new cross-border retail chains to make the way into Kyiv, including Kipling (Belgian Specialist Clothing), IKEA (Homeware and Department Store), 4F (Polish Specialist Clothing), Versace (Italian Luxury & Business Fashion brand), FLO (Turkish Value & Denim) among others.

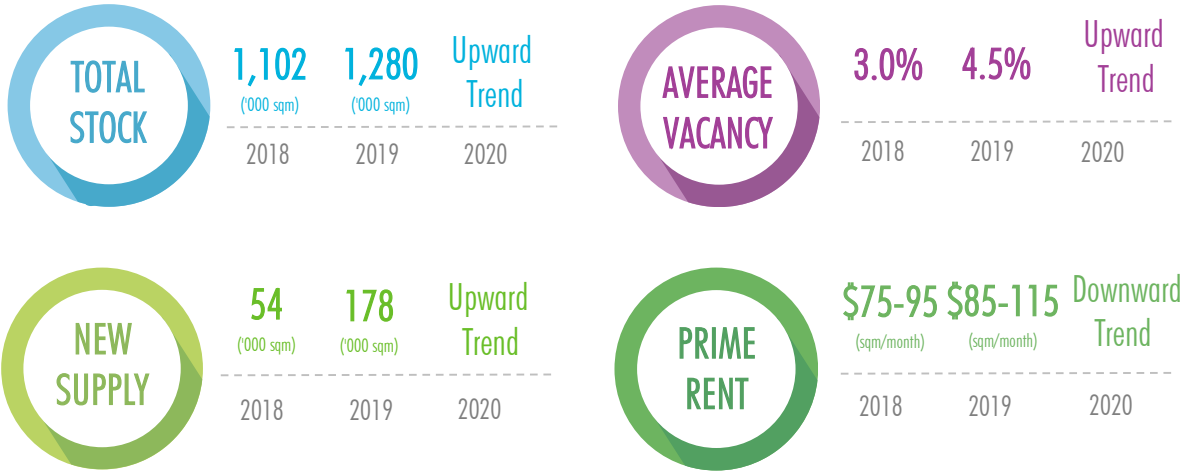
Investment into retail properties is expected to grow, as more new products enter the market, economy continues to strengthen, and financing becomes less restricted. Smaller transactions can be expected to grow in number, with more private capital directed towards real estate investment among both domestic and international players. Large, \$9-digit transactions will continue to be a challenge for the foreseeable future, as the country remains below the radar of international investment institutions. Moderate yield compression can be expected with cautious optimism, albeit status quo remains the base case scenario.

Table 4: Key Shopping Centers in the Regional Pipeline, as of the end of 2019

Brand	Retail Sector	Country of Origin
IKEA	Homeware and Department Stores	Sweden
Kipling	Specialist Clothing	Belgium
The Kooples	Luxury and Business	France
FLO	Value and Denim	Turkey
Funday	Value and Denim	Russia
Elisabetta Franchi	Luxury and Business	Italy
The Athletes Foot	Specialist Clothing	United States
Stella McCartney	Luxury and Business	United Kingdom
4F	Specialist Clothing	Poland
Coach	Luxury and Business	United States
Home&You	Homeware and Department Stores	Poland
Versace	Luxury and Business	Italy
Vans	Specialist Clothing	United States
Miss Sixty	Mid Range Fashion	Italy
b.young	Mid Range Fashion	Denmark
Fransa	Value and Denim	Denmark
Steve Madden	Mid Range Fashion	United States
Eataly	Coffee and Restaurants	Italy
Sephora	Other	France
Debenhams	Homeware and Department Stores	United Kingdom
Deichmann	Specialist Clothing	Germany

Source: CBRE Ukraine

Key Retail Market Indicators Summary and Outlook



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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