

Kyiv & Regions Retail Market, H2 2020

COVID-19 Boosts Omnichannel Commerce Development

 **Total Stock ▲**
1.37mio
 sqm (+6.3% YTD)

 **Vacancy ▲**
11.0%
 (+6.5 pp YTD)

 **Prime Rent ▼**
\$55-77
 sqm/month

Demand

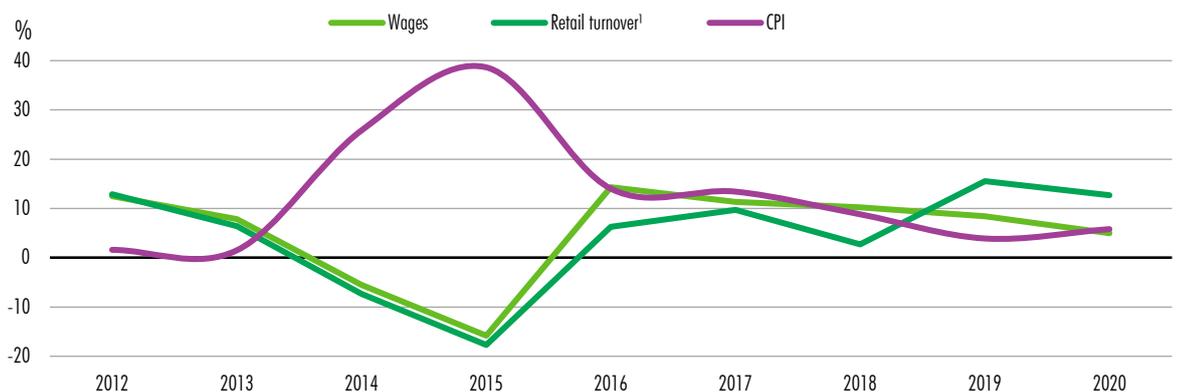
In the beginning of 2020, the retail market generally demonstrated healthy fundamentals with increasing demand for retail space and improving purchasing power. However, the onset of the COVID-19 pandemic resulted in an unprecedented temporary closure of retail centers from mid-March to May and then again during 3 weekends in November. Despite pandemic-caused restrictions, retail sales have undergone a robust increase of 12.7% y-o-y, attributable to significant growth in e-commerce and strong domestic spending. Kyiv's real wage index also remained positive at 105.0 y-o-y, providing, together with tourism savings, a healthy addition to household spending, with the average shopping cart value increasing by 26% y-o-y.

Over the year, the fastest-growing retail brands in Kyiv were international *JYSK*, *H&M*, LPP's *Sinsay*, and Tema Group's *LC Waikiki*. The period also saw some domestic players expanding, such as *VOVK* (Mid-Range Fashion brand) and *MORO* (Homeware

and Department Store brand) adding 2 stores each. Despite the pandemic-induced anxiety, 8 new fashion brands entered the market in 2020 with *4F* (Polish Specialist Clothing brand) opening in Retroville SC, *Vans* (U.S. Specialist Clothing brand), *b.young* (Danish Mid-Range Fashion brand), and *Fransa* (Danish Value and Denim brand) opening in River Mall SC, *FLO* (Turkish Value and Denim brand) and *Miss Sixty* (Italian Mid-Range Fashion brand) opening in Ocean Plaza SC, *The Athlete's Foot* (U.S. Specialist Clothing brand) opening in Blockbuster Mall SC, and *Body Shop* (U.K. Cosmetics and Skin Care brand) opening in Lavina Mall SC.

The food retailers enjoyed strong sales, being one of the few categories allowed to operate during the lockdown. As a result of uninterrupted operation, major chains continued with expansion strategies, increasing the number of stores by 33% y-o-y nationwide.

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



¹ Includes organized retail sales only
 Source: Kyiv Statistics Office

In Kyiv, convenience stores accounted for over half of new openings in food retail, with Aretail's *KOLO* being the most active player in the segment, having opened 100+ locations in the capital region in 2020 alone. Among other fast-growing retailers were *ATB*, *Fozzy Group*, and *VolWest Group*.

E-commerce, arguably the top benefactor of the pandemic, went into a higher gear on the back of restrictions imposed on traditional retail. According to Euromonitor International, Ukraine recorded an impressive growth rate of 45% y-o-y in e-commerce sales, reaching 8% of total retail turnover. With such significant growth of e-commerce, more retailers focused on developing omnichannel commerce to compete with online platforms. A significant number of international brands, such as *Colin's*, *IKEA*, *Miniso*, *Massimo Dutti*, *Uterqüe*, *Stradivarius*, and *Pull&Bear* launched online stores during 2020. In food retail, *ATB* launched its first online store during the lockdown and introduced the click-&-collect service, enabling in-store grocery pick-up after completing online purchase. At the same time, some e-commerce operators (i.a. *Rozetka*, *Makeup*) were actively opening click-and-mortar stores to complement online experience for those customers who prefer to feel the product before completing the purchase.

Supply

In the beginning of 2020 expected new supply comprised 277,000 sqm, which could have been the largest annual addition to the stock since 2013. However, due to economic and market uncertainties, most real estate development projects have been halted or postponed. The year saw a single completion of Retroville SC, with GLA of 86,300 sqm which increased total professional retail volume in Kyiv to 1.37mio sq m (+6.7% y-o-y). With this addition, shopping center density per 1,000 habitants in Kyiv grew by 6% y-o-y and stood at 461 sqm, reaching the level of Budapest (471 sqm) but remaining considerably behind Warsaw (523 sqm) and Prague (613 sqm). According to the General Director of Retroville SC, Renata Jakubcioniene, upon delivery occupancy rate of the new scheme

Table 1: Cross-Border Market Entry in Kyiv Shopping Centers in 2020

 BRAND	 RETAIL SECTOR	 ENTRY LOCATION
b.young	Mid-Range Fashion	River Mall
Fransa	Value and Denim	River Mall
Vans	Specialist Clothing	River Mall
4F	Specialist Clothing	Retroville
FLO	Value and Denim	Ocean Plaza
Miss Sixty	Mid-Range Fashion	Ocean Plaza
The Athlete's Foot	Specialist Clothing	Blockbuster Mall
Body Shop	Cosmetics and Skincare	Lavina Mall

Source: CBRE Ukraine

Table 2: Potential Cross-Border Market Entry in Kyiv Shopping Centers

 BRAND	 RETAIL SECTOR	 COUNTRY OF ORIGIN
IKEA	Homeware and Department Stores	Sweden
Carter's	Specialist Clothing	United States
Elisabetta Franchi	Luxury and Business	Italy
Stella McCartney	Luxury and Business	United Kingdom
Home&You	Homeware and Department Stores	Poland
Eataly	Coffee and Restaurants	Italy

Source: CBRE Ukraine

stood at 80% counting operating stores and 91.6% counting contracted area. This high level of the absorption of new space indicates that demand for quality retail areas in Kyiv continues despite pandemic implications.

According to developers' statements, over 400,000 sqm are currently under construction and expected for delivery over 2021-2022. Notably, the delivery of one of the largest shopping centers in Ukraine, Respublika Park SC (135,000 sqm), is announced for the end of 2021. The scheme will include approx. 500 stores and 50 restaurants, a cinema, and a high-technology entertainment park. The remaining

anticipated supply for 2021-2022 is represented by Ocean Mall (110,000 sqm), Phase II of Blockbuster SC (75,000 sqm), White Lines (32,000 sqm), Phase II of April Mall (31,000 sqm), Phase II of Lavina Mall (30,000 sqm), Phase II of Pyramida SC (11,000 sqm), and XIT Mall SC (10,000 sqm). If delivered as announced, this is a considerable new proposition which can slow down the recovery of occupancy rates and rental levels, especially in less competitive projects.

Vacancy & Rents

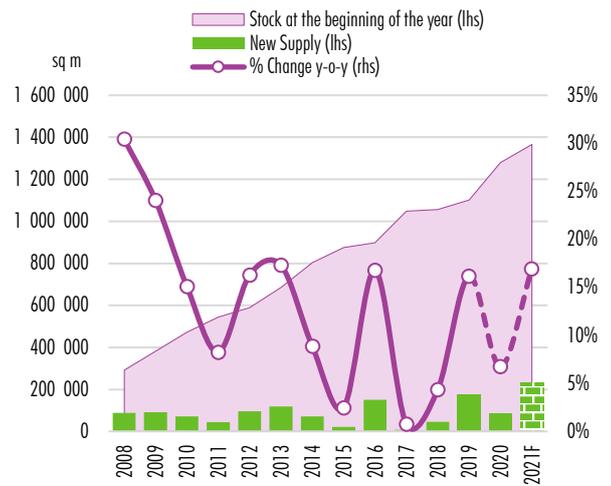
Anti-pandemic restrictions affected the majority of traditional retail businesses nationwide, as footfall decreased in every single shopping center and much street retail had to scale down. Entertainment segment, an important attribute for modern shopping centers, was one of those which suffered the most. In the wake of COVID-19-related restrictions, several big entertainment operators, such as Vesely Vulyk, Sky Park, and Happylyon announced their plans to leave the Ukrainian market. Cinema operators too had to readjust and close down locations. Closures and rotations coupled with new supply led to the average retail vacancy increasing by 6.5 p.p. y-o-y to 11% in Kyiv.

Sizeable correction of prime rents has consequently been registered over the course of the year. At the end of 2020, asking rents in prime shopping centers of Kyiv ranged between \$55-\$77/sqm/month vs. \$85-\$115/sqm/month the year before. Rents for secondary shopping schemes ranged between \$39-\$55/sqm/month vs. \$44-\$63/sqm/month one year prior. No rent was typically paid during periods of lockdown when shopping centers were closed. In addition, many landlords granted temporary rental reductions of up to 50% of rent alongside other concessions, in order to keep vacancy down. Such periods ranged between 1 to 3 months for smaller gallery retailers and extending to 3-6 months for entertainment operators. Average effective rent collection in shopping malls therefore declined by ca. 20% y-o-y across the board.

Investment

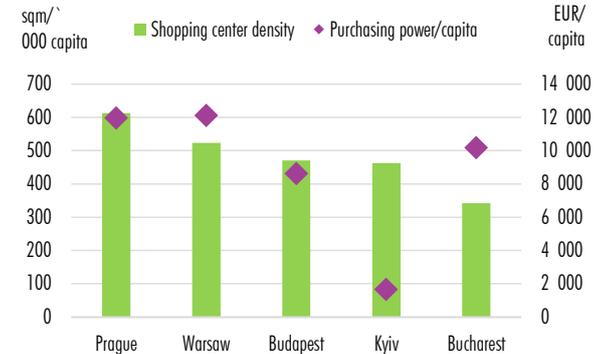
The COVID-19 crisis led to a halt in retail investment, as not a single investment transaction was recorded in retail sector over the year. Despite absence of market evidence, notional prime yield has weakened by +0.75 p.p.

Figure 2: Kyiv Shopping Center Stock and New Supply



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

Figure 3: Center Densities and Purchasing Power Capita in CEE Region Capitals as of the end of 2020



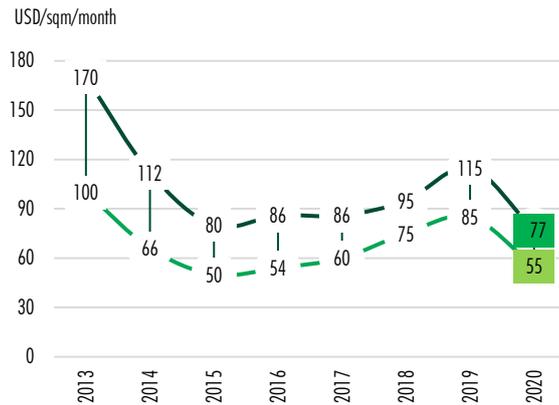
Source: CBRE Ukraine

Table 3: Key Shopping Centers in the Pipeline, as of the end of 2020

ANNOUNCED FOR DELIVERY	GLA, SQ M	DEVELOPER
Delivered in 2020	86,300	
Retroville	86,300	Stolitza Group
2021	231,000	
Pyramida (Phase II)	11,000	Dragon Capital Property Management
Blockbuster (Phase II)	75,000	Mandarin Plaza/Megaline
XIT Mall	10,000	Alliance-Ecoproject
Respublika Park	135,000	Cascade Investment Fund
2022	203,000	
Lavina Mall (Phase II)	30,000	Mandarin Plaza/Megaline
April Mall (Phase II)	31,000	Kyivproekt Development
Ocean Mall	110,000	Mandarin Plaza/Megaline
White Lines	32,000	A Development
Project	443,000	
Hippodrome Mall	293,000	Mandarin Plaza/Megaline
Peremoha Mall	150,000	Mandarin Plaza/Megaline

Source: CBRE Ukraine

Figure 4: Base Rents Range in Kyiv Prime Schemes



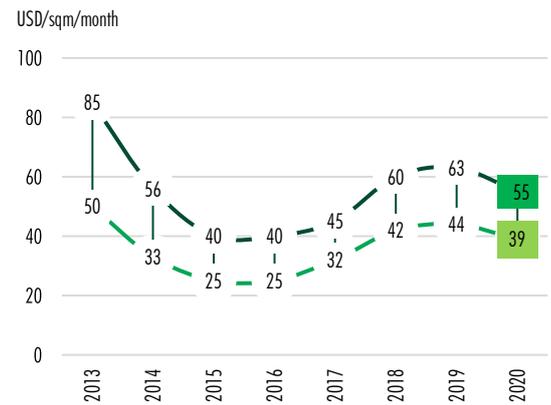
Source: CBRE Ukraine

y-o-y to 12.5% to reflect current strong level of caution. Until the pandemic is reined in, we expect investment activity to remain feeble – despite positive signs over H2 2020 like increasing footfall and consumer spending – with investors broadly maintaining a wait-and-see approach to the segment. However, as market players adapt to the “new normal” and with the expected arrival of generally available vaccination, investment activity may gradually resume in 2021, particularly in view of a landmark investment opportunity open in Kyiv. It is worth noting that several land plots zoned for retail development were acquired in 2020 by Epicentr (operator of the largest chain of DIY stores in Ukraine) and Stadsis AB (affiliated with retail developer Vagif Aliyev). These transactions may signify that some major market players retain a positive long-term outlook for the national retail sector.

Regions

The overall retail turnover grew nationwide by 8.4% y-o-y vs. 10.3% achieved in 2019. The highest growth indicators were registered in Zaporizhzhya (+15.7%), Chernihiv (+14.2%), Volyn (+13.7%), and Khmelnytskyi (+13.2%) regions, excluding temporarily occupied territories of Crimea and Donetsk & Luhansk regions. In 2020 regional markets registered 10 entries of international retail chains, down from the 20 entries the year before. Lviv welcomed 5 new international retailers in Forum Lviv SC, namely, *Intimissimi Uomo* (Italian Specialist Clothing brand), *Tezenis* (Italian Specialist Clothing brand), *Ochnik* (Polish Mid-Range Fashion brand), *Under Armour* (U.S. Specialist Clothing brand), and *FLO*

Figure 5: Base Rents Range in Kyiv Secondary Schemes



Source: CBRE Ukraine

(Turkish Value and Denim brand). A Turkish Mid-Range Fashion brand *DeFacto* entered the Dnipro market in MOST-City SC, and lastly, a U.S. Specialist Clothing brand *New Balance* entered the market of Khmelnytskyi in Oasis SC. The announced market entries of international brands in the regions for 2021 include *FLO*, *Vans*, *H&M*, *HUGO BOSS* (re-entry) in Nikolskyi SC (Kharkiv), *New Yorker* in APPOLO SC (Dnipro), and *Decathlon* in Riviera SC (Odesa).

Despite a rapid development of e-commerce in Ukraine, the main share of transactions remains in-store. According to the official data by Euromonitor, ca. 92% of total retail sales of 2020 in Ukraine came from physical retail. International brands *JYSK* (Danish Homeware and Department Stores brand) and *LC Waikiki* (Turkish Mid-Range Fashion brand) were among those most actively expanding in regional markets. Food retail was also active in 2020, as evidenced by a record number of new store openings. *KOLO* alone launched 221 convenience stores, which placed the company in the top-4 fastest-growing food retailers in Ukraine. *ATB*, in turn, opened 127 new discounters, a record number since 2013. Another noteworthy addition to the Ukrainian food retail mix was the opening of 55 new stores of *Fozzy Group* vs. 44 new stores in 2019. New shopping center supply remained subdued in 2020, with only 10,000 sqm of GLA added to the regional professional stock with completion of Phase II of APPOLO SC (10,000) in Dnipro. Due to limited supply, the density of

retail area per 1,000 habitants stayed broadly the same throughout the year: 262 sqm in Odesa, 249 sqm in Lviv, 233 sqm in Dnipro, and 158 sqm in Kharkiv. Thus, regional cities of Ukraine remain undersupplied with quality retail space. A low level of competition in the regions allowed the landlords to maintain relatively high rental rates for prime retail units in the range of \$45-\$70/sqm/month. At the same time, rates for secondary shopping centers stood in the \$20-\$40/sqm/month range on average.

Looking into the future, over 300,000 sqm is expected for delivery in regional cities over 2021-2022. Of the entire pipeline, Nikolsky SC is a particularly noteworthy large-scale project. Being

Table 4: Key Shopping Centers in the Regional Pipeline, as of the end of 2020

ANNOUNCED FOR DELIVERY	GLA, SQ M	CITY	DEVELOPER
DELIVERED IN 2020			
APPOLO (Phase II)	10,000	Dnipro	Kontyent/UMK/Principal
2021			
Nikolsky	53,000	Kharkiv	Budhouse Group
Ostriv (Phase II)	15,700	Odesa	OTD
Small	8,000	Vinnytsia	Local developer
Atrium	5,000	Uzhorod	UK Investment
Planeta Mall (ex. Magelan)	66,500	Kharkiv	Local developer
Podoliany (Phase II)	15,000	Ternopil	Podolyany
Cherkasy Mall	54,000	Cherkasy	Commercial Property Management
Riviera	15,000	Odesa	Argo Invest
Veles (Phase II)	27,700	Ivano-Frankivsk	555-IF
2022			
Spartak (Phase II)	15,000	Lviv	Lvivbudmaks-Invest
Alexandra Plaza	42,6000	Zaporizhzhia	Alexandra Group
Project			
Perehrestia (former Kubometr)	3,000	Dnipro	Alef Estate

Source: CBRE Ukraine

constructed in the very heart of Kharkiv by a professional developer Budhouse Group, the scheme is expected to bring new international brands to the local audience, setting new quality standards for regional shopping centers and rivaling Kyiv schemes with quality of construction and tenant mix. Apart from Nikolsky SC, another 2 large-scale projects in Planeta Mall (66,500 sqm) in Kharkiv and Cherkasy Mall (54,000 sqm) in Cherkasy are planned for delivery in 2021. As for the rest of the regional pipeline for 2021-2022, it is mainly represented by neighborhood small to medium-sized shopping centers, which will bring little change to the weak supply in the regions.

Table 5: Major Food Retailers & Their Brands Operating on the Ukrainian Market

RETAILER	SUPERMARKET FORMAT	HYPERMARKE T FORMAT	CONVENIENCE STORE FORMAT
ATB	ATB	-	ATB Express
Fozzy Group	Le Silpo, Favore, Silpo	Fozzy C&C	Fora, Thrash!
Auchan Group	-	Auchan	My Auchan, Auchan Pick-up Point
Metro C&C	-	METRO	-
Tavria V	Cosmos, Tavria V	-	-
Novus	NOVUS, Billa	-	NOVUS Express
Retail Group	Velyka Kyshehnia, 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
OPTTORH-15	-	-	Delvi
Aretail	-	-	Kolo
LK-Trans	-	-	LotOK
Modern Trade	Kopyyka, Santim	-	Kopyyka minimarket
Lvivkholod	Rukavychka	-	Rukavychka

Source: CBRE Ukraine

Outlook

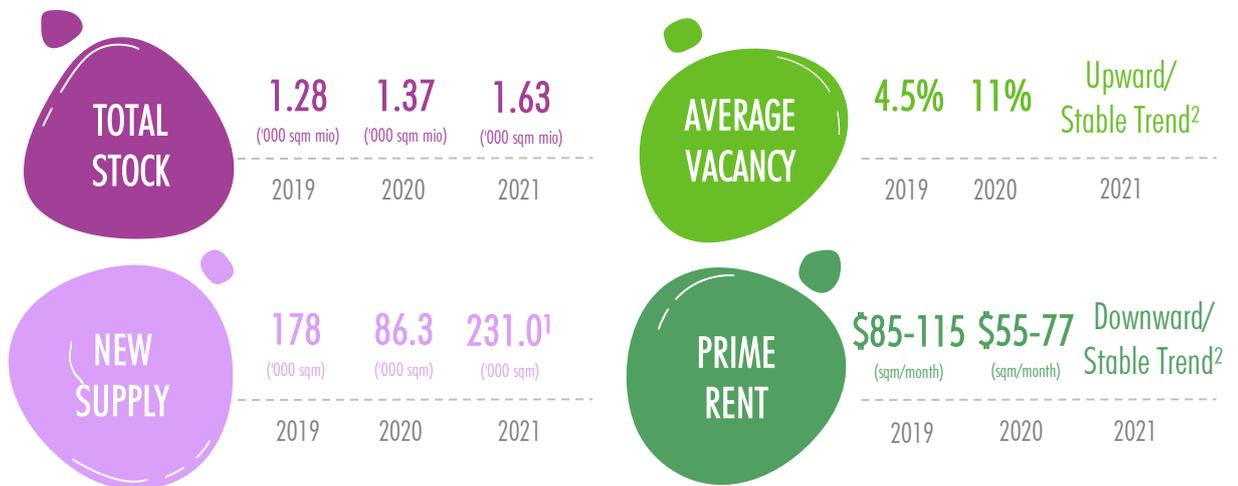
2020 proved to be a particularly challenging year for retail market. Despite certain improvements over H2, recovery proceeded timidly and return to pre-crisis levels will be contingent upon noticeable abatement of or, ideally, elimination of COVID-19 threat. In parallel, if properties in the pipeline are delivered as announced, abundant new supply is bound to delay rental recovery.

Both international and domestic retailers are expected to go ahead with expansion strategies in 2021 in the tenant-favorable market. Growing domestic consumption and delivery of quality shopping malls will continue to drive cross-border entries. Over the next year we expect coming of 6 international brands, including long-awaited *IKEA* (Swedish Homeware and Department Store brand), *Carter's* (U.S. Children Clothing brand), *Home&You* (Polish Homeware

and Department Store brand), *Eataly* (Italian Coffee and Restaurants brand), and *Elisabetta Franchi* (Italian Luxury and Business brand).

E-commerce will continue to extend the structural shift towards multichannel retailing, spurred by a dramatic increase in consumer reliance on online shopping during 2020. The rapid improvement of delivery services is also adding extra fuel to the expansion of online retailers. With growing competition, more e-commerce players will likely be opening and expanding click-and-mortar format stores or pick-up points to enhance or complement e-customer experience with physical retail option. On the opposite side of the aisle, more traditional retailers are expected to focus on developing online platforms to keep up with changing customers' habits.

Key Retail Market Indicators Summary and Outlook



¹ Announced new supply for 2021 may be corrected downward.
² An increase in vacancy rates and a decrease in rental rate are anticipated due to announced large new supply.

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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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