



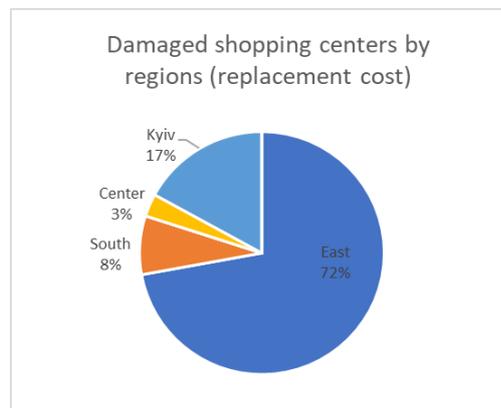
## Ukrainian retail real estate market in 2022. The impact of war. (Ukrainian Council of Shopping Centers research).

### Shopping centers damages and losses

The Ukrainian Council of Shopping Centers calculated the losses suffered by the shopping center industry due to the aggression from the Russian Federation. The total industry losses during the first 4 months of the war amounted to 9.9 billion US dollars.

#### DAMAGES

Direct losses of shopping centers, calculated as the replacement cost, amount to 402 million dollars. As of the beginning of November 2022, 29 shopping centers in Ukraine suffered significant damage. The largest share is in the East, where 14 shopping centers were damaged for \$290 million. Shopping centers (6) in Kyiv and the region suffered \$68 million in damage. In the South, the losses amounted to approximately 32 million (7 shopping centers). The most affected shopping centers are Port City (Mariupol), Nikolsky and Karavan (Kharkiv), Retroville (Kyiv), and Fabrika (Kherson).



Regarding the shopping centers damaged in terms of the area, the East is also the most affected region. Here, 45% of all retail spaces in the region were affected. The South is next by 20%. The North region was quite lucky. Despite active hostilities, not a single shopping center suffered significant damage, just like in the West. In the Central parts, one small shopping center Amstor (Kremenchuh), was attacked, where 22 people were killed, and about 100 were injured.

#### INDIRECT LOSSES

Indirect losses suffered by shopping centers are more significant than damages. As of June 1, 2022, the total indirect losses are estimated at 9.5 billion US dollars, of which: loss of control is 0.42 billion, capitalization losses are 7.4 billion, loss of profits from operating shopping centers is 0.4 billion. Moreover, the loss of profits of the shopping centers that were supposed to open in 2022 is 0.05 billion, and the capitalization is 1.22 billion.

The severest indirect damage is fixed in the East of Ukraine, where hostilities continue. Although some shopping centers are resuming work, profits remain at less than 30% of pre-war levels. On the contrary, the Center and the West showed rapid recovery in April and May. Gradually, starting from May and June, the North, Kyiv, and South have begun to recover.

Capitalization losses of existing shopping centers occupy the largest share of indirect losses (76%). This is due to capitalization rates growth from 11-13% on average in 2021 to 17-19% in 2022. The number of losses may be even higher because there are no deals, and, in fact, the market does not exist now. Also, domestic companies suffered significant losses (\$1.2 billion) due to the suspension of the construction of 19 shopping centers that were supposed to open in 2022. Also, the design and construction projects of many more shopping centers to open in 2023-2024 have stopped, but this number has not yet been estimated.

Maksym Gavryushyn, Head of the Ukrainian Council of Shopping Centers: *"9.8 billion dollars are the losses incurred by the industry in just the first 4 months of the war. It should not be forgotten that since 2014 about 780,000 square meters of GLA in the shopping centers have remained on the temporarily occupied territories. Considering their assessment and the profit having not been received for 8 years, the losses would add up to more than 2 billion dollars. Also, unfortunately, the industry will continue to lose the profit not received due to hostilities, immigration, and reduced expenditures. Over the next 12 months, Ukrainian shopping centers may lose another \$1 billion. Thus, total losses may amount to \$13 billion a year."*



The key factors behind the substantial indirect losses are reduced consumption due to migration and hostilities and increased country risks, which affect the investment attractiveness of commercial real estate. Also, the work of the industry is affected by the difficulties faced by retailers in Ukraine at the moment - logistics, currency operations, personnel problems, lack of credits, rising prices due to the fall of the hryvnia, and huge retail losses due to destruction.

### Retail damages and losses

As of May 2022, the total damages to the retail are estimated at **\$2.1 billion**. During the fighting, 2903 retail outlets with a total area of 1.6 million square meters were severely damaged. To date, it is difficult to calculate the final number of damaged objects due to the continuation of active hostilities in Kharkiv, Luhansk, Donetsk, Zaporizhzhia, Kherson, and Mykolaiv regions and the temporary occupation of some territories.

Damage assessment was performed according to the expert method of standardized interviews and online surveys of owners and top managers of retail companies, taking into account the area and nature of damage to the buildings based on the cost of construction and repair work, equipment, and inventory. The survey involved 295 leading network companies, representing about 1000 brands and having 28.5 thousand outlets with a total area of 15.4 million square meters. The survey was done by the Ukrainian Council of Shopping Centers and RAU.

The calculation includes the cost of restoration of buildings owned by companies, utilities, the cost of store equipment and inventory, the cost of warehouses owned by companies, warehouse inventories, and vehicle fleets. This does not include enterprises with less than three outlets, merchants in the street markets, warehouses of wholesalers and manufacturers, and stores that have suffered only minor damages.

The indirect losses of retail are estimated at \$22.6 billion. All this amount falls on the reduction of retail turnover due to emigration, the falling purchasing power of the population, and the destruction of stores.

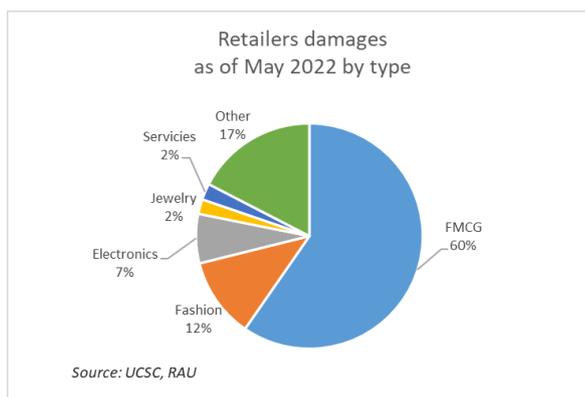
The sector needs \$3.9 billion to reconstruct. Working capital needs were not calculated separately, as they consist of the purchase of goods, while destroyed stocks of goods are already included in the assessment of direct losses.



### Retail turnover in Feb-Jun 2022

According to our estimates, compared to the pre-war, the average turnover of retail chains in Ukraine was 14% in March, 25% in April 2022, and 35-40% in May. Below are the results of a study of turnover losses for the first 2 months of the war. In May-June, there is a significant increase in the turnover of open stores.

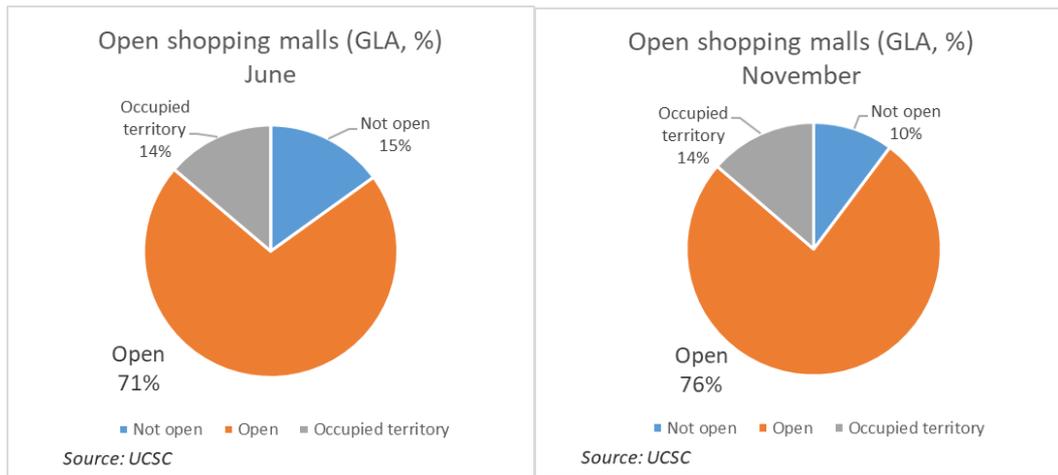
Two months after the outbreak of hostilities, 20,060 stores with a total area of 11.4 million square meters continued to operate. That is, only 70% of the pre-war number of units (28549) and 74% of the volume of the pre-war retail area (15.4 million square meters). On average, each company opened 68 outlets. A fifth of the chains was 100% closed, 10% of the companies had no more than 25% of stores opened, and 21% of chains had no more than half of the stores. Only 3% of retailers had the opportunity to work at maximum capacity but to open new outlets.



Each retail industry has characteristics that have affected the total amount of losses. So, for example, in food retail, the principal losses related to the premises of retail outlets fell on the chains of the two largest players, ATB and Fozzy Group. A total of 354 stores were damaged, with a total area of 470,696 sq. m. But besides, the ATB network had large losses of its vehicles - by 279 million hryvnias. Both major players ATB and Fozzy Group, after two months of hostilities in the country, maintained their turnover at the level of 58-59% compared to the beginning of the year. In general, the turnover of FMCG operators fell by 49% in two months after the war started, which is not so much compared with the services sector (-94% of turnover) and jewelry retail (-89%). In particular, in jewelry, the main part of the losses is accounted for by the loss of goods. Fashion retailers (-83%) and electronics (-74%) also significantly reduced turnover. Here, such big players as Foxtrot and Comfy, as in other retail sectors, have lost the most. So, in Foxtrot, 11 stores with a total area of 15,000 square meters were damaged. The Comfy chain has 12 outlets and 10,730 sq. m damaged. The two players also suffered major losses of goods in warehouses: UAH 542 million (Foxtrot) and another UAH 70 million (Comfy). The rest of the retail sectors as a whole reduced their turnover by 63%. In the non-food retail segment, EVA and Aurora chains attract attention, having an extensive network (1119 outlets and 863, respectively) and therefore had significant damage to 162 and 124 outlets, respectively. But, given the increase in demand for essential goods, EVA turnover, for example, fell only 10%. Aurora has 25% less.

### Shopping centers reopening

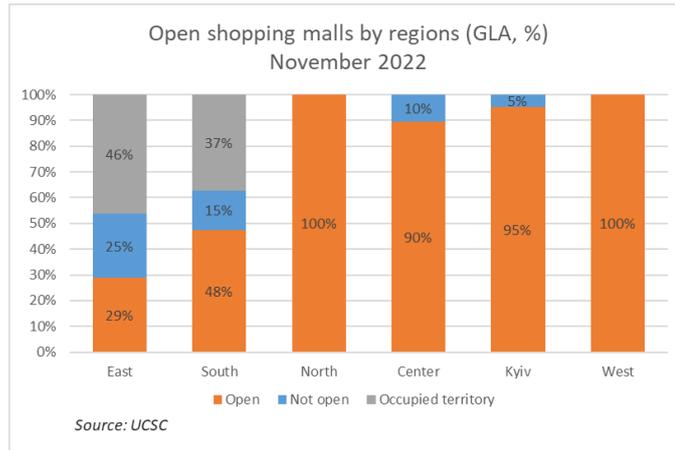
The Ukrainian Council of Shopping Centers continues to monitor the recovery of the shopping centers industry in Ukraine and the overall retail real estate market condition. As of November 1, 241 shopping centers with GLA of 4.4 million m<sup>2</sup> out of 326 shopping centers of all shopping centers in Ukraine have resumed operations in Ukraine.



This is 76% of all leasable areas, including shopping centers located in the temporarily occupied territory. This indicator slightly increased compared to the beginning of summer when 71% of GLA were open. 10% of leasable areas (590,000 m<sup>2</sup>) remain non-working, most of which are damaged. Excluding the shopping centers in the occupied territory, 88% of the GLA in the shopping centers are working as of the beginning of November.



Regarding the number of running malls, 241 facilities are currently operating, while only 102 shopping centers were working in April. Almost 140 shopping centers resumed their work in the May-October period. Some significantly damaged shopping centers have partially or fully resumed operations, such as Lavina Mall and Retroville (Kyiv), Nikolsky and Dafi (Kharkiv), and others. The total number of shopping centers damaged in Ukraine is 29, which are facilities with a gross building area of more than 1 million m<sup>2</sup>.



The largest share of non-working shopping centers remains in the East. Despite the reopening of one of the largest Nikolsky shopping centers, only 29% of retail spaces in the Eastern region are working, 25% are not working, and 46% are in occupied territory. Less than half of the retail spaces also operate in the South (48%). As well as a large share of shopping centers remains in the occupied territory (37%). In the capital, only 5% of shopping areas in shopping centers remain closed, mainly because of the Ocean Plaza shopping center. Also, the share of not operating areas in the Center is not significant (10%). All shopping centers operate in the North and West. This is primarily due to the lack of damages.

### Industry Recovery

Even though the military operations continue, the market of shopping centers in Ukraine is gradually recovering. To monitor the dynamics of market recovery, the Ukrainian Council of Shopping Centers launched the Retail Wellbeing Index (RWBI). As the RWBI shows, after a sharp drop in February and March, in recent months, there has been a gradual recovery of the primary indicators of the operation of shopping centers - footfall, rental rates, and vacancy. If in March of this year, the Index was 16.7, then in September, it was already 28.3. The pre-war indicator of the Index in September last year was 38.7. Thus, according to the Index, the market has already recovered by approximately 70%.



The opening of new shopping centers in Ukraine during the war is also a gradual market recovery indicator. In 2022, 6 new shopping centers with a total leasable area of 51,000 m<sup>2</sup> were opened. All new shopping centers are small, and all are located in the Western regions of the country.

## Methodology

### 1. Sources of information:

- Database of Ukrainian retailers of the Ukrainian Retail Association and the Ukrainian Council of Shopping Centers
- Database of Ukrainian shopping centers of the Ukrainian Council of Shopping Centers
- Members of the Ukrainian Retail Association
- Professional community
- Open sources

### 2. Objects for which the calculation is made:

- Affected objects (shops and warehouses) of chain retailers. Not included - enterprises with less than 3 outlets, bazaar entrepreneurs, warehouses of wholesale distributors and manufacturers, stores that have suffered minor damage
- Affected shopping centers. The shopping center status is given to commercial real estate objects that are considered shopping centers according to the ICSC European classification (a total of 326 shopping centers built in Ukraine and 19 new shopping centers that were to open in 2022).

### 3. Methods of calculation:

- Survey of owners and top managers of retail companies through expert indirect standardized interviews and correspondence online survey.
- Survey of shopping center managers and owners.
- Monitoring of the resumption of shopping center operations
- Assessment of damage by expert method, taking into account the area and nature of the damage based on the cost of finishing work, the cost of equipment and goods
- To estimate potential capitalization rates in 2022, certified valuation experts from leading consulting companies were involved.

### 4. Assumptions:

- The calculation of retailer losses includes: the replacement cost of buildings owned by companies, the cost of restoration of repairs, utilities, store equipment, store inventory, the cost of warehouses owned by companies, inventory in warehouses
- The following are not included in the calculation of retailer losses: losses of owners of premises, lost profits, financial costs of obtaining funds for renovation, the replacement cost of buildings not owned by companies, the cost of warehouses not owned by companies
- The following are not included in the calculation of shopping centers losses: losses of tenants of the premises, financial costs of obtaining funds for renovation
- If the building is damaged by more than 50%, the replacement cost is considered 100%
- Indirect losses of shopping centers are calculated based on the cash flow of domestic shopping centers based on the potential profit they would have in February-May 2022, taking into account an increase of 15% compared to 2021. Such growth was fixed in January 2022 and corresponds to the growth rate of retail turnover in Ukraine at the beginning of 2022 as a whole.