

Univermag Ukraina

Kiev, Ukraine

Project Type:
Commercial/Industrial

Case No:
C034007

Year:
2004



SUMMARY

Developed by NCH Capital, Inc., Univermag Ukraina, in Ukraine's capital city of Kiev, is the redevelopment of a Soviet-era department store situated near the city's Central Railway Station. The country's first destination retail location, Univermag Ukraina includes a basement-level supermarket and three floors of mid-tier retailers, topped by a fourth floor containing a food court, a multiscreen cinema, a dance club, and an Internet café. The project features attached parking, a steel-and-concrete interior updated to international standards, and a renovated glass exterior that plays on the building's national recognition factor. Improving on an old standby, Univermag Ukraina provides shoppers with affordable, high-quality products and leisure options in a convenient, upscale setting. When it opened in December 2003, the complex already was 98 percent leased.

FEATURES

- First destination retail/entertainment retail center in Ukraine
- First retail center with attached parking in Ukraine
- Affordable merchandise in an upscale setting
- Located at the center of a transportation hub

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SPECIAL FEATURES

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- Affordable merchandise in an upscale setting
- Located at the center of a transportation hub

PROJECT ADDRESS

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GENERAL DESCRIPTION

With the limited purchasing power found in Ukraine, the country's capital city of Kiev is seeing its downtown retail supply begin to exceed demand after three years of rapid growth. Despite an emerging middle class and a strong interest in Western-style clothes and other products, a number of recent upscale retail projects are experiencing low sales and high tenant turnover. Analysts say many retail developments are pricing themselves out of the market, while others cite a lack of adequate parking. Developed by NCH Capital, Inc., Univermag Ukraina seeks to offer the market something new while meeting the needs of the city's—and the nation's—shoppers.

Univermag Ukraina is the redevelopment of a circa-1966, Communist-era, state-run department store that once sold an array of mostly poor-quality merchandise in a drab, outdated environment. The 47,563-square-meter (511,966-square-foot) facility now provides shoppers with affordable, high-quality products and leisure options in a convenient, upscale setting. It is the country's first destination retail location and includes a basement-level supermarket, three floors of mid-tier retailers, an attached parking deck, and an upper-level entertainment floor containing a food court, a multiscreen cinema, a dance club, and an Internet café. The project's New York-based developer, NCH Capital, Inc., updated the steel-and-concrete interior to international standards and renovated the glass exterior, which is key to the building's national recognition factor.

NCH began during the early 1990s as a private investment management firm and has become one of the largest owners of real estate in the former Soviet Union and eastern Europe. It sees its involvement with Univermag Ukraina as an investment in present value and future appreciation. While countries west of Ukraine—like Poland, Hungary, and the Czech Republic—now offer affordable, international-style retail outlets, such a concept is relatively new to Kiev. Univermag Ukraina is the first retail outlet in Ukraine to feature attached parking plus leisure facilities. The mayor of Kiev and the U.S. ambassador to Ukraine helped inaugurate the newly renovated Univermag Ukraina in December 2003. Since then, the development has drawn through its doors approximately 15,000 people daily, a number that is expected to grow to 35,000 by the end of 2004.

THE SITE

Univermag Ukraina is located on a 1.175-hectare (2.9-acre) site at One Victory Square. It sits at the base of the central thoroughfare Taras Shevchenko Boulevard and across the street from the Kiev City Circus. It lies two kilometers (1.24 miles) west of the city center and half a kilometer (three-tenths of a mile) from the Central Railway Station. More than 50,000 drivers pass the development on their daily commute into the city from the suburbs or toward the Kiev-Borispol Airport. Four trolleys, six trams, two subway stations, two bus routes, and a number of minivan routes intersect at and provide access to Univermag Ukraina. This confluence of transportation services gives commuters from all districts of the city ample access to the project.

While the site has always been an asset, the Ukrainian economy and the Kiev retail market did not always cooperate in the project's development. Although NCH was ready to initiate redevelopment plans in 1998, the Russian financial crisis compelled the firm to put its plans on hold until 2001. When market conditions improved, NCH settled on plans for a destination retail center with the architects at the Kiev Design Institute. They hired the local public/private partnership construction contractor KievGorStroy and began renovation in 2002.

The renovation work did not proceed without a few unexpected challenges. For example, Univermag Ukraina stands less than one meter (3.3 feet) above an underground crease of the Lybid River, and the resulting high water content in the soil created difficult geological conditions for redevelopment. In shoring up the building's foundation, NCH and KievGorStroy encountered the city's outdated infrastructure underneath, which presented yet another challenge to renovation. The team also struggled with strict fire codes and the building's original design, both of which limited NCH's vision for redevelopment. Despite these challenges, NCH moved ahead and opened its newly redeveloped entertainment retail center on budget and on schedule.

DEVELOPMENT PROCESS

With the collapse of the Soviet Union in 1991, the Ukrainian government partially privatized its state-owned department store, Univermag Ukraina. It distributed shares to management, employees, and other individuals, who continued the store's operation with individual kiosks selling a variety of mostly poor-quality goods. In 1996, full privatization made shares available to the rest of the public, and NCH saw an opportunity to invest in Ukraine's most recognized name in retail. It bought its shares from the development's individual shareholders and employees, and through follow-up sales of blocks of shares by the government.

By 1998, NCH had acquired more than 75 percent ownership of the property, financed with 100 percent equity from NCH funds, primarily from New Century Capital Partners, LP—a US\$250 million fund backed by the Overseas Private Investment Corporation, a U.S. government agency that encourages investment in emerging markets. NCH's acquisition of more than 75 percent of the shares put it in a "supermajority" position, giving it full decision-making

power over the future of the business. Then the Russian financial crisis of 1998 threw the market into uncertainty.

In late 1999, when the first signs of economic stabilization following the crisis started to appear, NCH renewed its plans for the redevelopment of Univermag Ukraina. At the time, the Kiev retail market was just beginning to grow, primarily with underground retail passageways and upscale storefront boutiques. NCH had no basis for comparison in the local market for the kind of retail concept it had in mind, so it looked westward, to markets that had experienced a similar dynamic in the recent past. Warsaw, Budapest, and Prague offered good examples of what could be achieved in the burgeoning retail markets of eastern Europe. In these cities, high-quality, international-style destination retail outlets, themselves based on models located much further west, had worked. NCH hoped the Kiev market would follow suit.

NCH hired the Liebman Melting Partnership, a U.S. architecture firm, to create the initial concept and designs for the project. In conjunction with U.S.-based real estate consultants RTKL Associates, Liebman Melting produced several different concept plans and design development drawings. Liebman Melting also worked with engineers Thorburn Colquhoun (now URS) and local architecture firm the Studio of A. Komarovsky. The approach chosen envisioned using most of the facility, including the lower level, for retail space, while also leaving sufficient space for a food court and multiplex cinema, and constructing an attached parking deck on empty land in the rear of the facility.

In the beginning of 2002, NCH closed Univermag Ukraina and hired the Kiev Design Institute to draft the final design. To expedite the process, NCH entrusted the redevelopment project to the local construction contractor KievGorStroy, while approving designs and monitoring the project along the way. With its extensive experience in the Kiev market—and with the city of Kiev as its partial owner—KievGorStroy easily obtained all necessary design approvals, permits, and certificates from the city. Further minimizing construction time was a phased construction plan that allowed for work on each part of the building to proceed as the plans for those sections gained approval. The team's careful planning resulted in a construction process that did not fundamentally disrupt or alter neighboring buildings, motorways, public transportation stops, or pedestrian walkways.

To consult on structural engineering issues, such as how best to shore up the foundation and update the infrastructure underneath, NCH hired the Kiev-based independent Research Institute of Building Structures (NEESK). In addition to enlarging and modernizing the interior with new energy systems and a convenient floor-to-floor traffic flow, the team set about renovating the worn exterior, stabilizing the roof, and adding the aforementioned parking deck designed by Liebman Melting. With NCH's multiple goals and challenges, redevelopment of Univermag Ukraina took 18 months and cost US\$19.8 million. As mentioned previously, the project finished on schedule and on budget, leasing 98 percent of its space before opening in December 2003.

PLANNING AND DESIGN

The NCH redevelopment team wanted to maintain Univermag Ukraina's stature as a national icon—which it did, in part, by maintaining its original name—while updating the building's interior, renovating its exterior, and providing parking for its patrons. The primary goals were to bring the facility up to international standards and to use the site's interior and exterior space as efficiently and logically as possible. The structure's interior required substantial cosmetic repairs; elevators, upgraded lighting, restrooms, and state-of-the-art HVAC, plumbing, fire prevention, and security equipment also needed to be installed.

In addition, the development team reconfigured the interior layout to extend the trading areas and create more open space for shoppers. Following an open design plan, it removed all nonessential barriers such as non-load-bearing walls, leaving only supporting columns. The team then replaced the old Soviet-style staircase with modern escalators that consumed less space. The existing structure did not allow for the creation of a large atrium extending up through the center of the mall, so the team created smaller open areas with the space it gained upon replacing the massive staircase. The building's 2,000-square-meter (21,528-square-foot) basement, previously used for storage, proved to be an ideal site for a modern supermarket with an entrance for handicapped patrons that also offers access to the retail complex elevator.

To better organize the retail and entertainment space, the NCH team used an interior design concept that not only clearly identifies the entrance to the shops of its handpicked tenants (chosen on the basis of quality, affordability, and theme, rather than on the highest bid, per accepted practice), but also places each tenant on an appropriately themed floor. The varying design style of each level strives to entice patrons from clothing to electronics to home accessories, all the way up to the fourth-floor entertainment/dining area. NCH had some initial concerns about its plan for the fourth floor, fearing that a multiscreen cinema and a dance club might generate an overabundance of noise that would permeate the rest of the mall. Refusing to compromise on elements it felt were essential to the project, the developer invested in soundproof walls and floors for the fourth floor to head off any problems.

Floor-to-ceiling display windows front Univermag Ukraina's exterior and provide additional interior light. Because the exterior is so well recognized by consumers throughout Ukraine, NCH did not make major changes to it. The developer did, however, restore the exterior finish and install a striking new glass-and-metal central entrance to entice shoppers into the building. The two-meter-tall (6.6-foot-tall) letters of Univermag Ukraina's illuminated sign stand four stories above the entrance and are visible from multiple directions within the city. The development's front

plaza covers 18 percent of the overall site; the building consumes 58 percent, parking 15 percent, and landscaping and utilities 9 percent. The primary objective for the plaza was to clear away the many independent vendor kiosks and effect a cleaner look for pedestrians approaching the development.

Meanwhile, at the rear of Univermag Ukraina, an engineering solution was needed to create an attached parking structure. NCH consulted NEESK, which worked to fit a nine-level parking deck onto an oddly shaped, 0.174-hectare (0.43-acre) empty lot behind the main building. KievGorStroy then went about erecting the 11,000-square-meter (118,403-square-foot), 372-car structure from the ground up. The contractor connected the parking structure to the entertainment retail complex on each level with interior walkways, and Univermag Ukraina became the first retail facility in Kiev with an attached parking structure. It also is the first retail center in Ukraine to charge for parking.

EXPERIENCE GAINED

NCH sought to offer the Kiev market something it had not yet seen: affordable, top-quality products and leisure options in a convenient, upscale setting. The firm was the first in the local market to provide such a full-scale destination retail complex. While it made plans for such a concept early on, NCH waited for the right time to proceed with the redevelopment, and its patience paid off.

By calling upon the expertise of local contractors, NCH sidestepped many of the bureaucratic and political obstacles so familiar to those who have developed real estate in the former Soviet Union. NCH also cites the daily supervision, input, and contributions of the local personnel in its Kiev office as key to the project's successful completion. Flexibility on the part of the developer itself was key to maintaining a set timeline as well as staying on budget. Because NCH chose to redevelop an existing building, it had to accept certain structural limitations and compromise on some components.

One of the project's weaknesses is its lack of open atrium space, which would have made the mall more interesting and attractive for customers. However, the original Soviet construction meant that creating a full atrium in the mall would have necessitated tearing down the entire building and starting over. As a compromise, the developer opted for smaller atrium spaces wherever possible. Ukraine's strict fire codes demanded more compromises from the developer, as they radically influenced escalator placement and floor layout. The unusually configured open spaces, escalators, and floor layouts that resulted can be disorienting to Univermag Ukraina shoppers. Only time will tell if such factors will have a lasting impact.

NCH strives to ensure the comfort level of both its tenants and its customers. It serves Univermag Ukraina's tenants with a Western-style mall manager who offers creative tenant solutions and an open-door approach. And it welcomes its patrons with concerts, fashion shows, and holiday themes. The developer's integrated marketing program and concerted public relations campaign are publicizing Univermag Ukraina's redevelopment, and news of the former Soviet institution's rebirth is spreading throughout the country. When the redevelopment team began renovation work, NCH projected stabilized cash-on-cash yields in excess of 20 percent. (As mentioned earlier, the project is 100 percent equity financed, so yield is unleveraged, i.e., cash on cash.) The project is now on course to generate an annual stabilized yield of about 23 to 25 percent.

PROJECT DATA		
LAND USE INFORMATION		
Site area (hectares/acres): 1.175/2.9 Gross building area (GBA), including parking (square meters/square feet): 47,563.2/511,965.5 Gross leasable area (GLA) (square meters/square feet): 16,988.5/182,862.5 Number of levels: 4 Parking spaces (all structured): 372		
LAND USE PLAN		
Use	Area (Hectares/Acres)	Percentage of Site
Buildings	0.681/1.68	58
Parking structure	0.174/0.43	15
Paved areas (surface parking/roads)	0.21/0.52	18
Landscaped areas	0.06/0.15	5
Other	0.05/0.12	4
Total	1.175/2.9	100
RETAIL DATA		
Tenant Classification	Number of Stores	
General merchandise	7	
Food	1	
Food service	2	
Clothing/accessories	34	
Shoes	4	
Home furnishings	1	
Home appliances/music	2	
Theaters/movies	4	
Gifts/specialty	8	
Jewelry	6	
Drugs	1	
Other retail	8	
Personal services	1	
Financial	1	
Total	80	
Major Tenants	Space Occupied (Square Meters/Square Feet)	
Velyka Kyshenya	2,365/25,457	
Moscva	1,540/16,576	
Amro	2,170/23,358	
Broccard	513/5,522	
Sportmaster	676/7,276	
ReReserved	462/4,973	
Merks	637/6,857	
Paritet Servic	585/6,297	
Average length of lease: 3 to 5 years Typical lease provisions: tiled floors, suspended ceilings with lights, heating, ventilation, air conditioning, power cabling/sockets, fire system Annual rents (per square meter/square foot): US\$180 to US\$2,160/US\$16.75 to US\$201		
DEVELOPMENT COST INFORMATION		
Site Acquisition Cost: US\$6,130,727		
Site Improvement Costs (both on and off site): US\$600,000 Excavation/grading: US\$75,000 Sewer/water/drainage: US\$80,000 Paving/curbs/sidewalks: US\$49,000 Landscaping/irrigation: US\$46,000 Fees/general conditions: US\$92,000 Other: US\$258,000		
Construction Costs (without 20% VAT—value-added tax): US\$15,671,058 Superstructure: US\$6,954,663		

HVAC: US\$2,516,104
Electrical: US\$1,744,200
Plumbing/sprinklers: US\$529,297
Elevators: US\$726,000
Fees/general conditions: US\$107,142
Finishes: US\$3,093,652
Parking structure: Included in superstructure cost
Tenant improvements: Paid by tenants

Soft Costs (architecture/engineering): US\$398,200

Total Development Cost (without 20% VAT, where applicable): US\$22,799,985

ANNUAL OPERATING EXPENSES, 2004 (PROJECTED)

Property taxes: US\$250,000
Insurance: US\$60,000
Services: US\$22,500
Maintenance: US\$567,000
Janitorial: US\$285,000
Utilities: US\$450,300
Legal: US\$15,000
Management: US\$240,000
Miscellaneous: US\$113,000
Total: US\$2,002,800

DEVELOPMENT SCHEDULE

Site purchased: 1996–2001
Planning started: August 2001
Approvals obtained: March 2002
Construction started: March 2002
Leasing started: October 2003
Project opened: December 2003

DIRECTIONS

From Kiev-Borispol Airport: Take Kharkivske Shose, then turn left onto Vozzyednannia to cross the Dnipro River. Turn right onto Drushby Narodiv and continue to Lybidska Square. Turn right onto Velyka Vasytkivska Street. On reaching Bessarabska Square, turn left and follow Shevchenko Boulevard directly to Peremohy Square. Univermag Ukraina is located on the left, across from the Kiev City Circus.

Driving time: Approximately 35 minutes in nonpeak traffic.

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This Development Case Study is intended as a resource for subscribers in improving the quality of future projects. Data contained herein were made available by the project's development team and constitute a report on, not an endorsement of, the project by ULI—the Urban Land Institute.

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Univermag Ukraina, the 47,563-square-meter (511,966-square-foot) redevelopment of a Soviet-era department store, is a destination retail project that includes a basement-level supermarket and three floors of mid-tier retailers, topped by a food court, a multiscreen cinema, a dance club, and an Internet caf



Rather than making major changes to the building's exterior, which is well recognized by consumers throughout Ukraine, Univermag Ukraina's developers chose only to restore the exterior finish, stabilize the roof, and add a striking new glass-and-metal central entrance intended to entice shoppers into the building.



The large letters of Univermag Ukraina's illuminated signs are visible from many parts of Kiev.



The front plaza covers 18 percent of the site; the developer's primary objective here was to clear away independent vendor kiosks and provide a clean, welcoming space for pedestrians approaching the building.



Univermag Ukraina's nine-level, 372-car parking deck is connected to the entertainment retail complex on each level with interior walkways; the project is the first retail facility in Kiev with attached parking.



Because physical constraints precluded the creation of a large, central atrium, the developer created several smaller open areas within the mall.



Stores feature affordable, high-quality products in an upscale setting.