



2015 RETAIL MARKET REPORT

Moscow

HIGHLIGHTS

12 shopping centres with total area of 1,132 thousand sq m were opened in 2015 (GLA – 550 thousand sq m). The most active growth of new supply market has experienced in the first months of 2015.

First facilities which had undergone major redevelopment entered the market in 2015, they are Centralny Detsky Magazin na Lubyanke and Kuntsevo Plaza shopping centre.

Every second square metre is vacant in shopping centres completed in 2015.

It took more than half of year to ensure that market players moved to rents denominated in rubles.

RETAIL MARKET REPORT MOSCOW



Alexander Obukhovskiy
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“The vacancy rate in all the shopping centres to be opened in 2016 will be higher if compared with the facilities opened in previous years. Investors planning shopping complexes will try to postpone their construction till better days. The properties at the initial stages of construction will be put on hold due to the high vacancy rate and high cost of dept financings.

The market will absorb the available vacant space in 2016 and the vacancy rate will decline during 2016–2017. Hypermarkets and supermarkets might take advantage of the situation in 2016. Developers take this into account and provide the concept of shopping centres so that more than 50% of their space are allocated for hypermarkets. We also expect that Russian fashion segment will be developing: we witnessed the opening of stores of Russian designers even in central and quite successful shopping centres in 2015”.

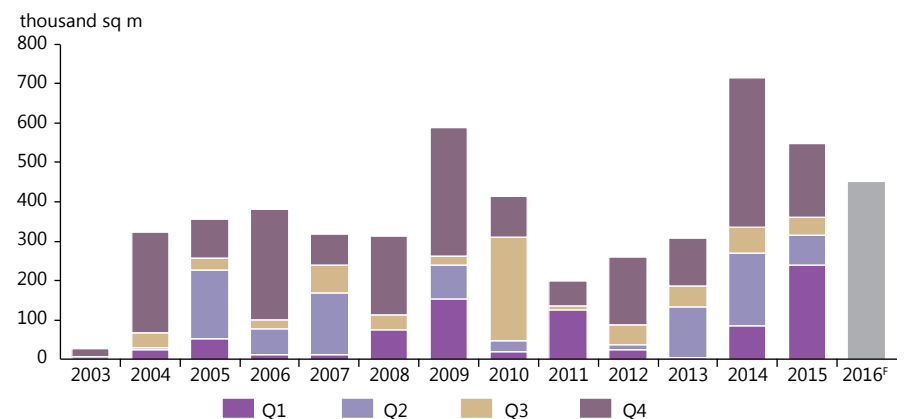
Key indicators. Shopping centres*. Dynamics

Shopping centres stock (GBA/GLA), million sq m	10.15 / 5.3 ▲
Delivered in 2015 (GBA/GLA), thousand sq m	1,132.1 / 550
Scheduled for opening in 2016 (GBA/GLA), thousand sq m	1,006.2 / 452.9
Vacancy rate, %	13.1 ▲
Base rents, \$/sq m/year (not including operating expenses and VAT)	
anchor tenants	100–400 ▼
retail gallery tenants	200–3,500 ▼
Operating expenses, \$/sq m/year	80–350 ▶
GLA in quality shopping centres per 1,000 citizens	431.6 ▲

* The table refers only to high quality, professional retail properties. A professional shopping centre is a standalone building or a group of buildings sharing the same architectural style, concept and under common management, with a total area of more than 5,000 sq m

Source: Knight Frank Research, 2016

New delivery volume dynamics



Source: Knight Frank Research, 2016

Shopping centres delivered in 2015

Object	Address	GBA, sq m	GLA, sq m	Developer
Q1				
Kuntsevo Plaza	19 Yartsevskaya St	245,000	65,000	Enka
Columbus	140 Varshavskoe Hwy	277,000	140,000	Mirs
CDM na Lubyanke	5 Teatralniy Passage	73,000	34,390	Hals-Development
Q2				
MARi	10 Porechnaya St	135,000	50,000	Lider
Klyon	11 Starovatutitskiy Passage	33,000	20,000	Capstroy
Tiara	27 Michurinskiy Hwy	15,000	7,000	Global
Q3				
RIO na Kievskom	Kievskoe Hwy, 1.5 km from MKAD	70,000	45,000	Tashir
Q4				
Zelenopark	Leningradskoe Hwy, 17 km from MKAD	140,000	110,000	Development Group 19
Avenue South West	Vernadskiy Ave / Pokryshkina St	70,000	40,000	Tashir
Kalita	7 Novoyasenevskiy Ave	47,000	22,000	Grandais
Vnukovo Outlet Village (phase II)	Kievskoe Hwy, 8 km from MKAD	17,800	10,300	Diona
Stolitsa	11 / 2314B Kutuzovskoe Hwy	9,300	6,350	Stolitsa Management

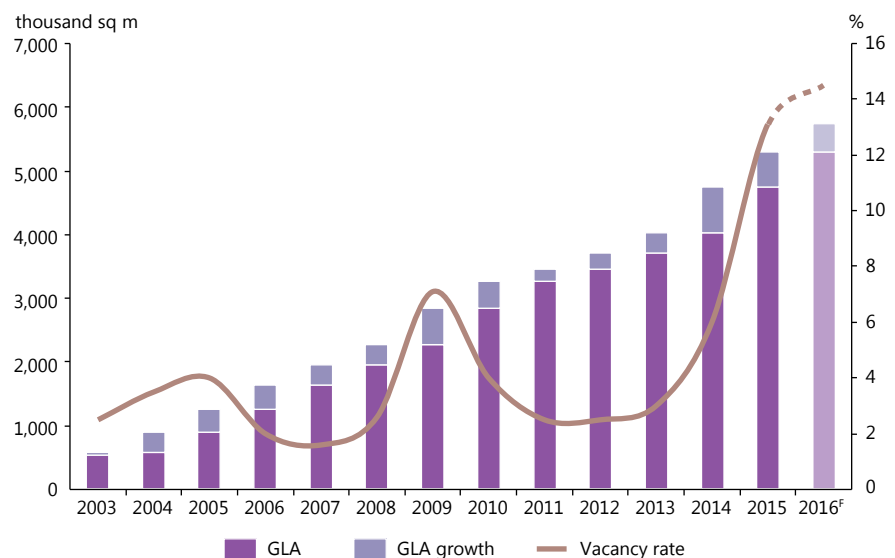
Source: Knight Frank Research, 2016

Supply

12 shopping centres with total area of 1,132 thousand sq m were opened in 2015 (GLA – 550 thousand sq m). The most active growth of new supply market has experienced in the first months of 2015: the growth rate for the first time in the history of the retail market exceeded the value of 200 thousand sq m in Q1 already. It should be noted that this situation is not typical for the retail real estate market of the capital as a significant amount of new supply usually falls on the final quarter of the year: the market of high-quality shopping centres of the capital contains 48% of such properties.

Columbus shopping centre became the largest centre opened in 2015. In the process of construction it was united with the reconstructed Prazhskiy Passage shopping centre by covered galleries. The newly constructed building and the reconstruction facility operate under Columbus name and have the same facade design.

Volume of shopping centres and vacancy rate dynamic



Source: Knight Frank Research, 2016

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It is noteworthy that first facilities which had undergone major redevelopment entered the market in 2015, they are Centralny Detsky Magazin na Lubyanke and Kuntsevo Plaza shopping centre. Herewith, Kuntsevo Plaza has become a unique example of global redevelopment involving the change of the architectural idea, its functional purpose and economic and financial indicators of the project.

Three district format shopping centres were launched in 2015: Tiara shopping centre (Western Administrative District), Klyon shopping centre (North-Eastern Administrative District), and Kalita shopping centre (South-Western Administrative District). It is noteworthy that each of these properties include an entertainment component, mainly presented by new retailers in the Moscow market (Kinokvartal cinema, Pushka Entertainment Centre – the first centre was opened in Kurgan).

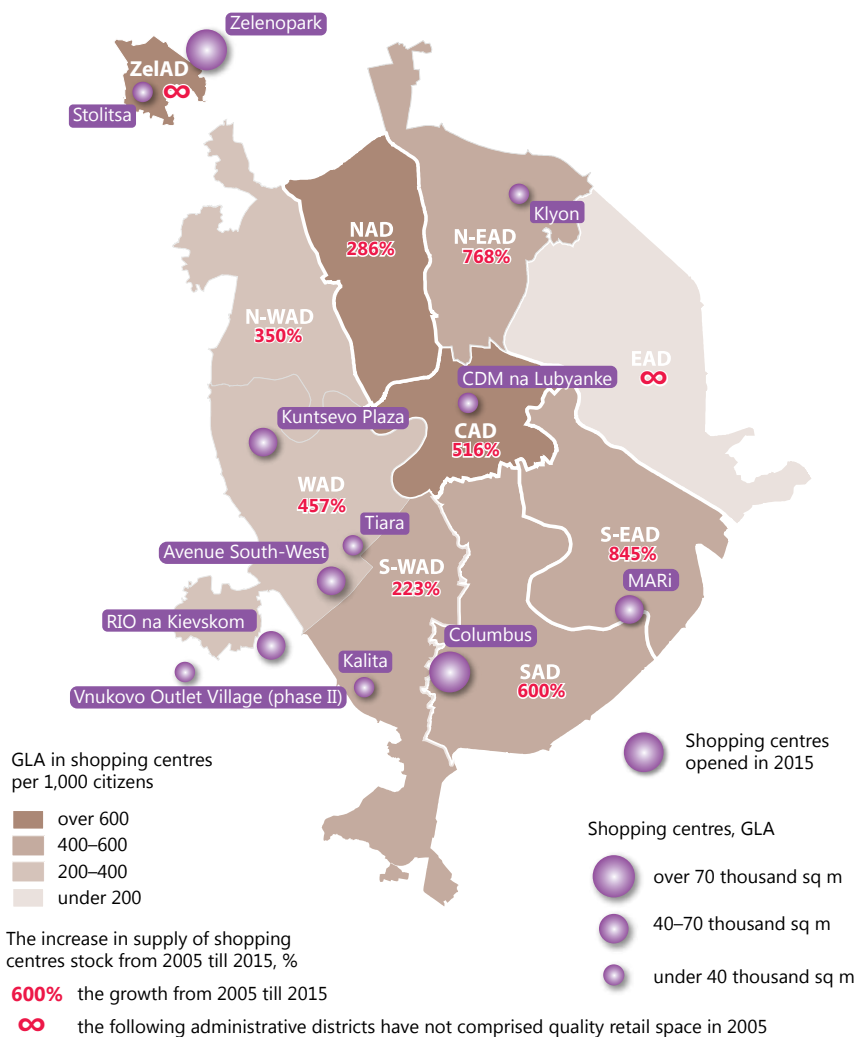
As mentioned previously, the trend of decentralization of retail real estate started a few years ago, is clearly visible in the example of facilities opened in 2015: almost all new shopping centres are located beyond the boundaries of the Central Administrative District (excluding Centralny Detsky Magazin na Lubyanke).

The largest number of retail space has been implemented in the North-Eastern and South-Eastern Administrative Districts over the past 10 years. Zelenogradskiy Administrative District holds the dominant position in terms of supply of modern retail space per capita in 2015, large Zelenopark shopping centre was launched in close proximity to Zelenograd in December 2015 (GLA – 110 thousand sq m). The district least provided with quality retail space remains the Eastern Administrative District and despite the fact that large Kosino shopping centre is scheduled for opening in 2016 (GLA – 39 thousand sq m), the situation will remain the same.

Difficulties in obtaining project financing as well as its cost growth led to the reduction in the amount of properties at different construction stages: some of them are put on hold, others remain at the approval stage, construction of still others is completed. The start of works on a construction site became a rare occurrence in 2015.

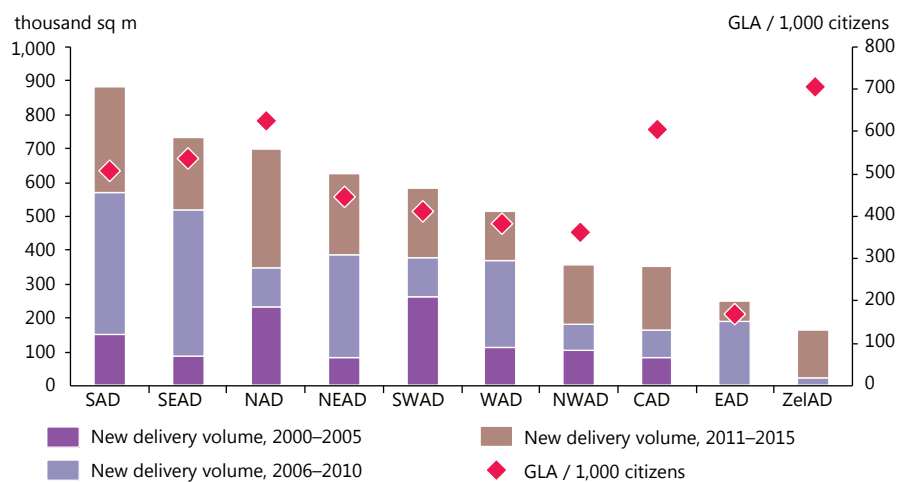
Consequently, the volume of retail space under construction fell by 38.5% in the period from January to December 2015. The decline of this index was more rapid in comparison with 2009,

The increase in supply of shopping centres stock from 2005 till 2015



Source: Knight Frank Research, 2016

Total stock of shopping centres by districts. Retail space per 1,000 citizens



Source: Knight Frank Research, 2016

when the volume of space under construction became 20% down during the year. This trend may lead to the shortage of new supply in the future: the forecasted total area of new properties against the index of the previous year decreased by 18% already in 2016.

It is now difficult to provide a forecast for 2017, but it should be noted that the volume of shopping centres planned for construction is estimated at 3 million sq m, which is an impressive "stepping stone". Shopping centres declared for implementation are Dream House (phase II), shopping centre at Dorozhnaya street (BIN Group), shopping centres of Oz Mall chain (the first facility is planned at the site of the former AZLK Moskvitch) and others.

In 2015 the average size of shopping centres opened has amounted to 45.8 thousand sq m (GLA). The maximum figure in the history of the market was registered in 2009 when the average area of the commissioned commercial facility was 53.5 thousand sq m. The construction completion of several large-scale centres is expected in 2016, and the average size of the facility opened will reach 56 thousand sq m. The increase of the indicator is due to the fact that several large-scale facilities are currently at the advanced stage of completion, their construction was commenced or resumed during the pre-crisis period.

Demand

The retail turnover in Russia amounted to 27,575.7 billion rubles at the end of 2015 decreased by 10% over the year (in comparable prices). Meanwhile, the share of food products in the structure of retail turnover continued to rise (from 47% in 2014 to 48.6% in 2015), highlighting the negative trend of spending redistribution by Russians in favor of food products. The lack of growth in the retail segment is the result of fall of living standards of Russians: indicators of real disposable income demonstrate the decline second year in a row (by 1% in 2014, by 4% in 2015 compared to the previous period) and real wages (inflation adjusted) were decreased by 9.5% for the year. Permanent reduction of effective demand also contributed to inflation and rising unemployment (7.4%) in 2015.

The consumer confidence index, reflecting total consumer expectations of the population quarterly fixed by the Federal

International retailers who left the Russian market in 2015

	Brand	Country of origin	Profile
1	American Eagle Outfitters	USA	Apparel
2	Arnolds Bakery & Coffee Shop	Finland	Café / Restaurant
3	Desigual	Spain	Apparel
4	DIM	France / Russia	Apparel
5	Flormar	Italy	Cosmetics / Perfumery
6	Hauber	Germany	Apparel
7	Hediard	France	Grocery
8	Herve Leger	France	Apparel
9	Laura Ashley	Great Britain	Apparel / Goods for house
10	Lindex	Finland	Apparel
11	Rockport	USA	Footwear

Source: Knight Frank Research, 2016



State Statistics Service displayed a further drop in 2015: according to Rosstat the index dropped to 2009 crisis values (-32%) in Q1 2015, 26% value was fixed after recovering losses by the end of the year. It should be pointed out that such low levels of the consumer confidence index was registered for the first time in the last 5 years.

Adverse economic and political conditions led to purchasing power decrease and tightening of credit policy of commercial banks, thus backfiring on the development of the majority of the retail chains: many retailers slowed down the expansion and focused on business optimization, some chose to leave the unstable market.

Therefore, 11 international brands (8 of them are representatives of the fashion segment) and 35 Russian retail companies (including 18 food concepts) left the market in 2015.

It is noteworthy that regional food retailers prevail among Russian chains closed in 2015 as medium-sized players can hardly develop in a deteriorating economic situation and they cannot compete with leaders of national food retail which keep actively developing, X5 Retail Group and Magnit are among them.

The retail real estate market of the capital updated antirecord not only in terms of the vacancy rate (13.1%), but also by its

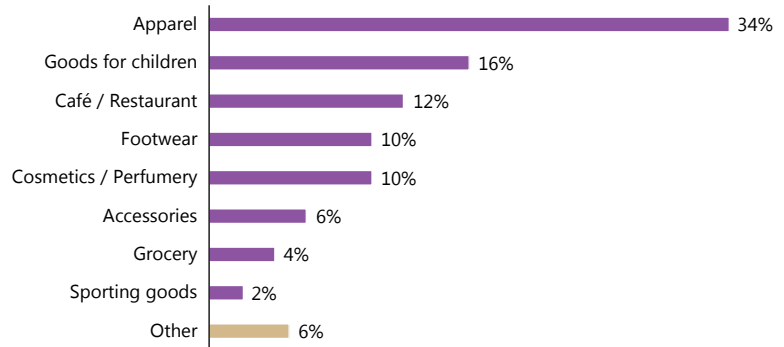
absolute value. If compared with 2009 crisis, when experts also registered the peak of the vacancy rate and the absolute figure reached 230 thousand sq m, today the amount of space available for lease in shopping centres is 3 times higher – circa 700 thousand sq m. The occupancy rate of shopping centres decreased by 7.1 p. p. during the year. At the same time the lowest vacancy rate (6%) was observed in shopping centres opened before 2014, and the highest rate was 66% of the total supply in properties opened in Q4 2015. If we consider only the volume of new supply it can be pointed out that every second square metre is vacant in shopping centres completed in 2015.

The rise of interest from international retailers to the Russian market was not observed in 2015: 49 flagship stores of international chains were launched, which is 37% less than in 2014, but 7% higher than in 2013. 26 of them refer to middle price segment. The countries of origin of these brands are Italy (25%), France (12%), Germany (10%) and the USA (8%).

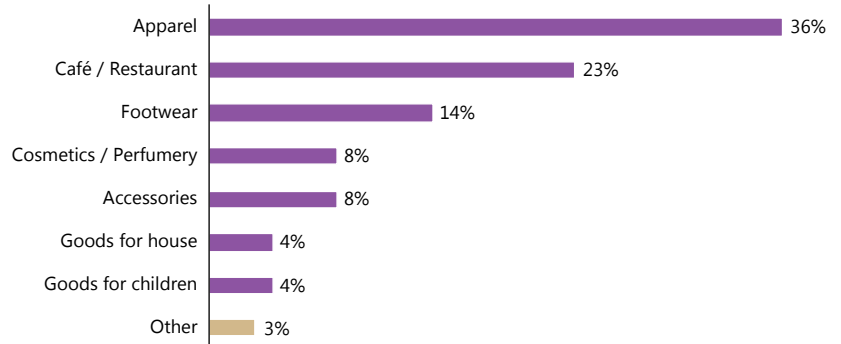
Clothing retailers lead the way in the structure of the distribution of new brands in terms of its profile for the second year in a row, while public catering was dominant among all the concepts in 2013. Middle price clothing brands choose large projects

New international brands opened in Moscow by profile

2015



2014



Source: Knight Frank Research, 2016



SEC Polezhaevskaya

International retailers, opened its first store in Russia in 2015

	Brand	Country of origin	Profile	Price segment
1	Maccheroni	Italy	Café / Restaurant	Middle
2	OLIVA	Germany	Café / Restaurant	Middle
3	Bulgaria Beauty	Bulgaria	Cosmetics / Perfumery	Middle
4	Original Marines	Italy	Goods for children	Middle
5	Greene King	Great Britain	Café / Restaurant	Middle
6	H&M Kid's	Sweden	Goods for children	Middle
7	Heel'n'Tote	South Korea	Footwear	Upper middle
8	Moreschi	Italy	Footwear	Premium
9	Orchestra	France	Goods for children	Middle
10	Pimkie	France	Apparel	Middle
11	Rocco P.	Italy	Footwear	Premium
12	Rouge Bunny Rouge	Great Britain	Cosmetics / Perfumery	Premium
13	Saint James	France	Apparel	Middle
14	Serge Lutens	France	Cosmetics / Perfumery	Premium
15	Silver Cross	Great Britain	Goods for children	Upper middle
16	Tsumori Chisato	Japan	Apparel	Upper middle
17	Apple Shop	USA	White & Brown	Upper middle
18	Atos Lombardini	Italy	Apparel	Premium
19	Bimbus	Italy	Goods for children	Middle
20	Bruuns Bazaar	Denmark	Apparel	Upper middle
21	Buff Store	Spain	Accessories	Middle
22	Circle of Gentlemen	Holland	Apparel	Premium
23	De Fonseca	Italy	Footwear	Middle
24	DeFacto	Turkey	Apparel	Middle
25	DOMINO EIGHT	Ukraine	Apparel	Premium
26	Fazer Baker's Market	Finland	Grocery	Middle
27	Lichi	USA	Apparel	Middle
28	Mafrat	Italy	Goods for children	Upper middle
29	Malo	Italy	Apparel	Premium
30	Reisenthel	Germany	Accessories	Middle
31	Rookie	USA	Goods for children	Upper middle
32	Seiko	Japan	Accessories	Different price ranges
33	Soocre'	Greece	Café / Restaurant	Middle
34	Stella Sport	Germany	Sporting goods	Upper middle
35	ULRIC DE VARENS	France	Cosmetics / Perfumery	Middle
36	Wonders	Spain	Footwear	Middle
37	Bartek	Poland	Goods for children	Middle
38	Berluti	France	Apparel	Premium
39	Bottega Giotti	Italy	Apparel	Premium
40	Daniel Espinoza	Mexico	Jewelry	Different price ranges
41	Erborian	South Korea / France	Cosmetics / Perfumery	Upper middle
42	Henry Cotton's	Italy	Apparel	Upper middle
43	Louis Charden	Armenia	Café / Restaurant	Middle
44	MCS (Marlboro Classics)	Italy	Apparel	Middle
45	True Milk	Vietnam	Grocery	Middle
46	Wrangler	USA	Apparel	Middle
47	Kompot	Ukraine	Café / Restaurant	Middle
48	Riani	Germany	Apparel	Upper middle
49	Tchibo	Germany	Other	Middle

Source: Knight Frank Research, 2016

with high traffic, such as Mega, Aviapark, AFIMALL City, Metropolis, Kuntsevo Plaza and others.

It should be noted that a significant number of new retailers entering the Russian market in 2015 act with a high degree of pragmatism and are not engaged in an active expansion, but rather test the new market.

Commercial terms

Economic sanctions and counter-sanctions, national currency fluctuations, decrease in purchasing power as well as a lack of available credit facilities, all these have led to significant changes in aspects of cooperation between developers and tenants. First of all, it affected the commercial terms. It took more than half of year to ensure that market players moved to rents denominated in rubles or found other productive ways to minimize the effects of exchange rate dependence (for example, by fixing the exchange rate band or applying variable calculation schemes of the lease payment calculation taking into account the turnover figure).

It should be pointed out that landlords of retail properties are highly willing to work with the tenants of "experimental" concept, private entrepreneurs, regional chain retailers, makers of non-chain stores of designer clothes etc., in order to reduce the vacancy rate and increase rental income. These residents of the shopping centre contribute to form an attractive concept and provide the landlord with

rental income, but they often insist on slightly different cooperation conditions (short-term lease agreement, the availability of fit out in the premises, etc.). In previous years developers of high-quality shopping centres tried to avoid this kind of cooperation, considering the above tenants less reliable in terms of both quality of service of visitors and their financial viability.

Such new trend should be additionally highlighted as the appearance of stores leased by progressive young designers and fashion-associations in high-quality projects or the capital: for example, Trend Island in Aviapark, Russian Fashion Roots zone on the third floor of Modny Sezon shopping gallery, Rufair art space and MATRYOSHKA designer fair in Okhotny Ryad shopping centre, Design market in LOTTE PLAZA and others. It is expected that future active development of design concepts as a part of shopping centres will be supported by such factors as the withdrawal of medium price brands from the market, vacant premises, more accessible lease terms, as well as active development of a base for professional training in the field of design in Russia.

Another interesting trend is the introduction of offline representations of various online stores in shopping centres: several big players of e-commerce segment have opened or announced their intention to open offline stores (KupiVip, AliExpress, Wikimart, Lamoda and others). In addition, today the premises of shopping centres are used often enough as exhibition space, where not only works of

art can be exhibited (an art gallery in Tiara shopping centre), but also collections of butterflies and rare birds.

In general, the renewal of further mutually beneficial cooperation between landlords and tenants became possible as a result of the correction of commercial terms by Q4 2015.

Forecast

Currently, there are about 25 retail facilities at various stages of construction (GLA – 970 thousand sq m), the developers planned to launch their opening in 2016. Commissioning of the majority of shopping centres under construction will be transferred to future periods including those that are in the final stages of construction owing to serious constraints caused by the unavailability of debt financing and low demand from tenants. Only 8 shopping centres with total leasable area not exceeding 460 thousand sq m will highly likely to be launched in 2016. It should be noted that a significant share (approximately 25%) of new supply of 2016 will be formed by two large facilities of TPS Nedvizhimost developer – Okeaniya (GLA – 61.8 thousand sq m) and Polezhaevskaya shopping centre (GLA – 50 thousand sq m).

The majority of shopping facilities are expected to be opened with a significant share of empty space due to difficulties with the timely negotiation of leases and the completion of fit out works in leased premises. A similar situation was observed

Rental rates in modern shopping centres

Profile	Fixed rental rate, \$/sq m/year, 2014	Fixed rental rate*, rub./sq m/year, 2015	The share paid based on turnover, %
Hypermarket (>7,000 sq m)	100–250	0–10,000	1,5–4%
DIY (>5,000 sq m)	150–300	4,000–6,000	4–9%
White & Brown (1,300–4,000 sq m)	150–350	4,000–9,000	2,5–4%
Sporting goods (1,000–6,000 sq m)	150–300	0–10,000	8–10%
Goods for children (1,000–2,000 sq m)	200–400	6,000–12,000	8–15%
Apparels (400–1,000 sq m)	600–2,200	0–30,000	4–12%
Footwear (300–500 sq m)	900–2,500	0–35,000	7–12%
Entertainment (1,000–4,000 sq m)	100–200	0–6,000	10–13%

* Commercial terms had been discussed at negotiation process

Source: Knight Frank Research, 2016

throughout 2015, sometimes the projects were opened even if occupied only by 10%. At the same time, as a rule, the same retailers started to operate before the rest in the opening facilities.

It is more and more difficult for management companies to combine the date of the technical and the grand opening due to the difficulties in attracting tenants to shopping centres: our experience shows that the time lag between the two events reaches 2–4 months (in some cases – up to six months).

It should be noted that the decrease in activity of development companies in the current crisis period (projects put on hold or reduction of volume of future facilities construction, the postponement of the works at the construction site) may lead to a shortage of quality supply in 2–3 years prospective.

Provided that retail facilities planned for opening in 2016 will be occupied by 50%, the average vacancy rate will not exceed 14.5% in the Moscow market. However, in case of worsening of the macroeconomic conditions the situation may change.

Largest shopping centres scheduled for opening in 2016

Object	Address	GBA, sq m	GLA, sq m	Developer
Butovo MALL	Ostaf'yevskaya St / Chicherskiy passage	143,000	65,000	MD Group
Riv'era	16–18 Avtozavodskaya St	298,000	100,000	Riv'era
Riga Mall	Novorizhskoe Hwy, 5 km from MKAD	157,000	80,000	RIGA MALL
Okeaniya	3 Slavyanskiy Blvd	136,600	61,800	TPS Group
Metropolis (phase II)	16 Leningradskoe Hwy	66,000	38,000	Capital Partners
Polezhaevskaya	Bld 1, 33 Khoroshevskoe Hwy	130,000	50,000	TPS Group
Kosino park	5 Svyatoozerskaya St	90,000	39,000	TEN
Proletarskiy	24 Proletraskiy Ave	23,670	14,900	Immochan

Source: Knight Frank Research, 2016

Stores operating from the first days of a shopping centre opening

Profile	Retailer
Goods for children	Detsky Mir, Acoola Kids, Pravil'nye igrushki
Grocery hypermarket / Supermarket	Ashan, Perekrestok, Viktoria, Lenta
Sporting goods	Sportmaster, Decathlon, Reebok
Mobile operators	MTS, Megafon, Svyaznoy
Cosmetics / Perfumery	L'Etoile, L'occitane, Lush
Jewelry	Valtera, MYUZ, 585, Yuvelirtorg
Apparel / Footwear	befree, ZOLLA, oodji, SAVAGE, MODIS, Carlo Pozalini, H&M, Kira Platinina, Lady&Gentleman CITY, Cop.Copine, Tom Tailor
White & Brown	M.Video, Eldorado
Café / Food-court	Teremok, KFC, McDonald's, Burger King, Subway, Uryuk
Drugstore / Optics	36,6, A5, SmartVision, Rigla, Good Look
Household goods	Togas, Uytterra, Arya Home, Goods House

Source: Knight Frank Research, 2016



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