



# Q1 2015 RETAIL MARKET REPORT

Moscow

## HIGHLIGHTS

Three shopping centres with a total area of 595,000 sq m (GLA – 239,300 sq m) opened in Q1 2015.

Total area offered at modern shopping centres in Moscow is 9.58 million sq m (GLA – 4.98 million sq m).

A lot of chains revised their expansion plans for the Russian market; some global brands announced store closures, such as Herve Leger, Lindex, Flormar and others.

Rental rates denominated in foreign currency have fallen 20–30% over the last 12 months.

# RETAIL MARKET REPORT MOSCOW



**Olga Yasko**  
Director, Research Department,  
Knight Frank, Russia&CIS

*"The retail property market in Moscow was characterized by two trends in Q1 2015. The first one is the continuing momentum-driven launch of new retail facilities, which increases the already substantial pressure on landlords. The other is a search for a price balance acceptable to landlords and tenants amid a high exchange rate volatility and lower turnover of retail operators. The numbers that the market had at the end of the quarter certainly cannot be considered as balanced, while the average numbers for the market may be of little use for the assessment of the performance of specific facilities. However, a further development of these very trends will be shaping the market profile in the eyes of investors, developers and consumers."*

## Key indicators. Shopping centres\*. Dynamics

Shopping centres stock (total area/GLA ), million sq m	9.58 / 4.98 ▲
Commissioned in Q1 2015 (total area/GLA), thousand sq m	595 / 239.3
Scheduled for commissioning till the end of 2015 (total area/GLA), thousand sq m	1,600 / 787
Vacancy rate, %	8 ▲
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	80–260 ▶
GLA in quality shopping centres per 1,000 residents	408 ▲

\* 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

\*\* Gross leasable area

\*\*\* Applicable to stores of approximately 100 sq m located on the ground floor

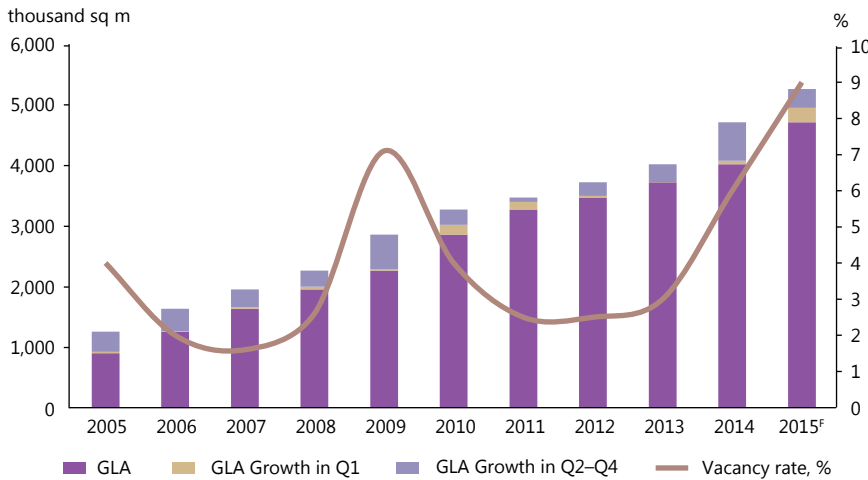
Source: Knight Frank Research, 2015

## Largest shopping centres commissioned in Q1 2015

Object	Address	Total area (GBA), sq m	GLA, sq m	Developer
Kuntsevo Plaza	19 Yartsevskaya St	245,000	65,000	Enka
Columbus	140 Varshavskoe Hwy	277,000	140,000	Mirs
CDM na Lubyanke	5 Teatral'ny passage	73,000	34,390	Gals Development

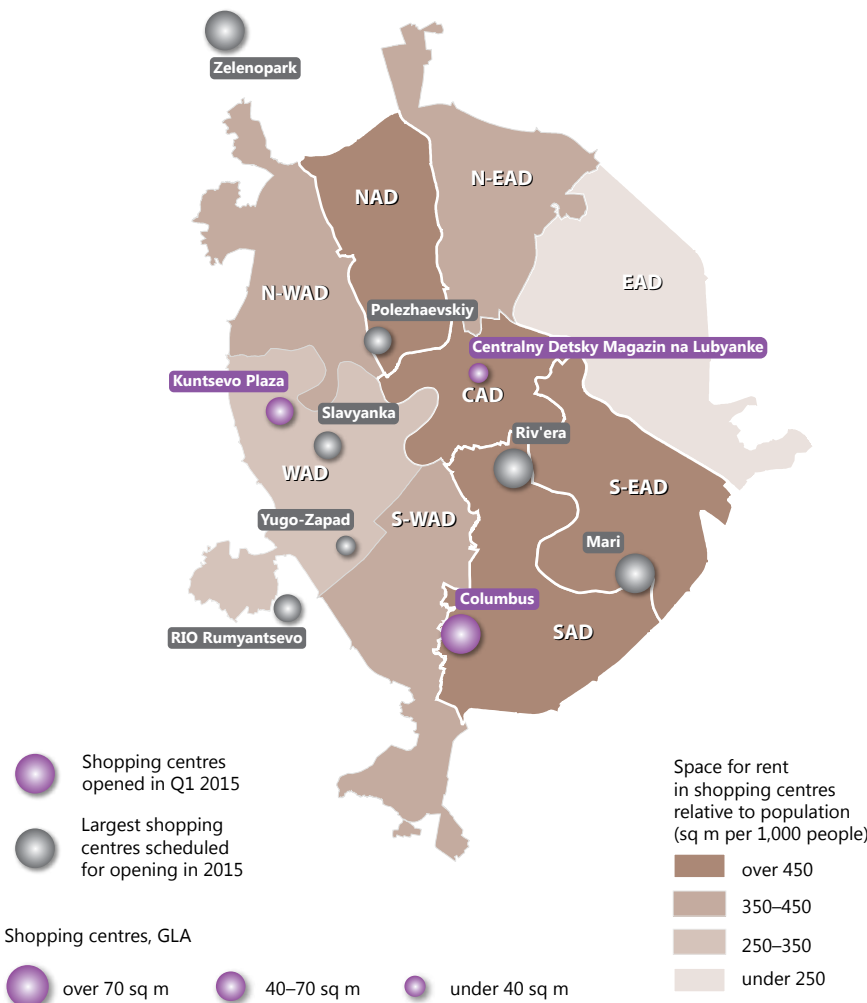
Source: Knight Frank Research, 2015

Moscow shopping centres supply dynamic



Source: Knight Frank Research, 2015

Shopping centres opened in Q1 2015. Largest shopping centres scheduled for opening in 2015



Source: Knight Frank Research, 2015



Supply

Three shopping centres with a total area of 595,000 sq m (GLA – 239,300 sq m) were launched in Q1 2015: Columbus, Kuntsevo Plaza and CDM na Lubyanke. This is a record increase for the period in the entire history of the professional retail property market. It's worth mentioning that the high increase in supply was due to facilities announced for opening in 2014. The total area of modern shopping centres in Moscow at the end of Q1 was 9.58 million sq m (GLA – 4.98 million sq m).

The launch of facilities with a shopping gallery where 30 to 50% of stores are open has become an overall market trend (as a rule, one or two anchor tenants and a few shopping gallery operators are open). One of the key reasons is that a new shopping centre finds it difficult to attract tenants, which in the current environment favour the already existing high-quality facilities with good customer traffic.

Demand

The year 2015 began with a spike in inflation and lower real personal incomes. The consumer price index rose 7.2% year-to-date compared to 2.3% in Q1 2014. Retail turnover has fallen since the start of the year compared to the same period of last year. Turnover in Russia dropped 6.1% on the year in January and February; Moscow saw a more significant 6.8% decline, according to the Federal State Statistics Service.



Rental rates in modern shopping centres in Moscow, 2015

Profile	Fixed rental rate*, \$/sq m/year Q1 2014	Fixed rental rate*, \$/sq m/year Q1 2015
Hypermarket (>7,000 sq m)	100–250	100–250
Urban hypermarket (3,000–7,000 sq m)	150–350	150–300
Supermarket (1,500–3,000 sq m)	250–500	250–450
DIY (>5,000 sq m)	200–350	150–300
White & Brown (1,500–3,000 sq m)	250–500	120–250
Sporting goods (1,500–7,000 sq m)	400–800	100–300
Goods for children (1,000–2,500 sq m)	250–450	200–300
Apparels (50–300 sq m)	800–2,500	600–2,000
Footwear (50–300 sq m)	900–3,000	600–2,200
Accessories (10–70 sq m)	2,500–4,500	1,600–4,000
Movie theatres	250–500	150–300
Entertainment centres (100–1,500 sq m)	100–200	70–150
Entertainment centres (2,000–5,000 sq m)	100–250	100–250

\* Excluding operating expenses and VAT (18%)  
Source: Knight Frank Research, 2015

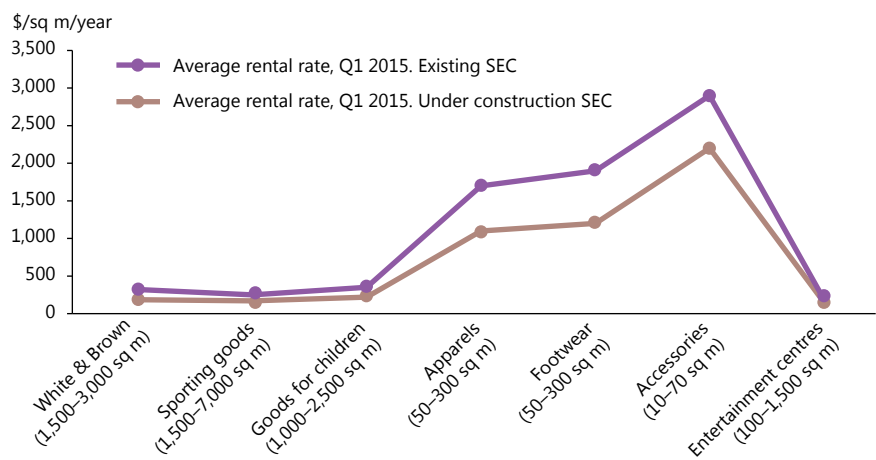
Traffic at Moscow shopping centres fell in the period, especially at large centres with the GLA over 80,000 sq m. Some weeks in March, traffic at such centres was more than 10% lower than at the same time a year ago, according to data by Watcom.

Due to a fall in consumer demand, the deterioration of macroeconomic data and the geopolitical environment, a lot of chains have revised their expansion plans for the Russian market; some global brands have announced store closures, such as Herve Leger, Lindex, Flormar and others. Besides, the Finnish retailer Stockmann has announced plans to close three department stores in Moscow. It's worth mentioning that some 30,000 sq m of leasable area will become available once the chain cuts the number of its stores.

Food and DIY operators feel most at ease in the current environment. For example, Leroy Merlin has announced plans to open 10 new stores in the country by the end of 2015. Besides, retail chains selling children's goods and mass-market apparel brands are seeing the least decline in traffic and turnover in the current situation.

Among global brands that announced their entry into the Russian market in the current period are Superdry, Buff, Camomilla, Seiko and others. However, global operators are showing less interest in the Russian market.

A comparison of average rental rates for existing shopping centres and those under construction depending on the tenant's profile.



Source: Knight Frank Research, 2015

### Commercial terms

To minimize vacancy rates, landlords are forced to make concessions to tenants, offering the best possible rental terms. Top quality facilities in a good location with a strong pool of tenants still find themselves in the best position. Commercial terms at such facilities are renegotiated with minimal losses for the owner: as a rule, the tenants get a discount off the dollar-denominated rental rate (the discount varies for different brand categories) or

the rate of the currency of the contract is frozen for a short period between three months and two years.

It's worth pointing out that average rental rates denominated in foreign currency have dropped 20 to 30% compared to early 2014. It's interesting that a ruble-denominated rental rate including not just the base rate but also VAT and operating expenses is currently under discussion.



Metropolis SEC, 18 Leningradskoe Hwy

## Forecast

By the end of 2015, 19 more facilities with a total area over 1.5 million sq m (GLA – 700,000 sq m) are announced for launch. These include such large shopping centres as Zelenopark (GLA – 110,000 sq m), Mari (GLA – 70,000 sq m), RIO Rummyantsevo (GLA – 45,000 sq m). But the launch of some projects will probably be pushed back, so we estimate that additional supply in Q2–Q4

will not exceed 300,000 sq m of leasable space.

The average vacancy rate in the Moscow market may stay at 8–9% until the end of the year, but that may change if macroeconomic data deteriorates. There will be more projects put on hold, including those in the final stages of construction. In that case, the vacancy rate may increase to 15%.

### RESEARCH

#### Olga Yasko

Director, Russia & CIS

[olga.yasko@ru.knightfrank.com](mailto:olga.yasko@ru.knightfrank.com)

### RETAIL

#### Sergey Gipsh

Partner, Director, Russia & CIS

[sergey.gipsh@ru.knightfrank.com](mailto:sergey.gipsh@ru.knightfrank.com)

26 Valovaya Street  
Lighthouse BC  
Moscow 115054 Russia

Phone: +7 (495) 981 0000

Fax: +7 (495) 981 0011



© Knight Frank LLP 2015 – This overview is published for general information only. Although high standards have been used in the preparation of the information, analysis, view and projections presented in this report, no legal responsibility can be accepted by Knight Frank Research or Knight Frank for any loss or damage resultant from the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank in relation to particular properties or projects.

Reproduction of this report in whole or in part is allowed with proper reference to Knight Frank.

### Largest shopping centres scheduled for opening in 2015

Object	Address	Total Area (GBA), sq m	GLA, sq m
Zelenopark	Leningradskoe Hwy, 17 km from MKAD	140,000	110,000
Riv'era	16–18 Avtozavodskaya St	260,100	91,200
Mari	10 Porechnaya St	135,000	50,000
Slavyanka	3 Slavyanskiy Blvd	136,600	61,800
Polezhaevskiy	Bld 1, 33 Khoroshevskoe Hwy	130,000	50,000
RIO Rummyantsevo	Kievskoe Hwy, 1.5 km from MKAD	70,000	45,000
Yugo-Zapad	Intersection of Vernadskiy Ave and Pokryshkina St	70,000	40,000

Source: Knight Frank Research, 2015