

Q3 2015

RETAIL MARKET REPORT

Moscow



HIGHLIGHTS

Q1–Q3 2015 were marked with opening of seven shopping centres of 848 thousand sq m (361.4 thousand sq m GLA). The cumulative volume of quality shopping centres of the capital approached 9.85 million sq m (GLA – 5.1 million sq m).

From the beginning of 2015 36 international chains launched its first enterprises and stores in Russia, 20 of them were opened in Q3 2015.

Six large shopping centres with 230.6 thousand sq m GLA will be set up in Q4 2015 (GBA – 379.8 thousand sq m).



Olga Yasko
 Director, Research Department,
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"The vacancy rate of the retail market is quite substantial especially considering the demand from tenants. Significantly, 10% vacancy rate today and similar value of last years are fundamentally different in absolute figures. Thus, if the last 7% record-breaking index in 2009 was equivalent to 200 thousand sq m of vacant space, then current 10% are about 500 thousand sq m.

However, there are no issues for concern: today the pool of tenants at the market is much greater and the players survived through the crisis period have become more experienced. Therefore, the landlords of quality properties (that have been launched lately or were in operation before) who will support tenant-friendly policy will gradually level down their vacancy rate".

RETAIL MARKET REPORT MOSCOW

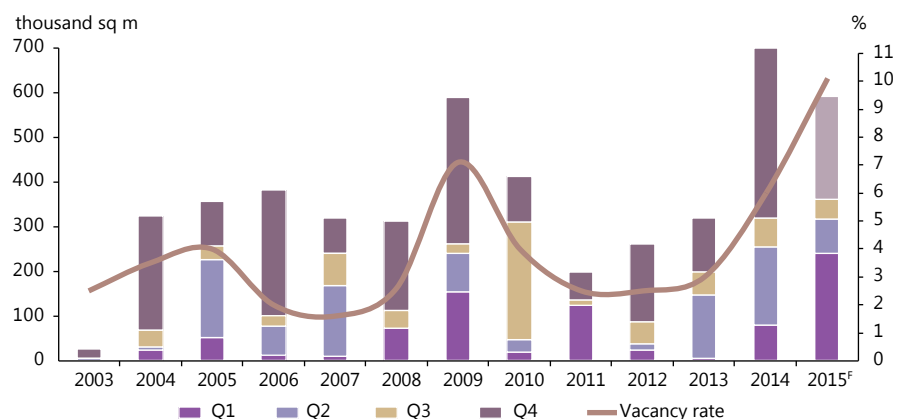
Key indicators. Shopping centres*. Dynamics

Shopping centres stock (GBA / GLA), million sq m	9.85 / 5.1 ▲
Opened in Q1–Q3 2015 (GBA / GLA), thousand sq m	848 / 361.4
Scheduled for opening in Q4 2015 (GBA / GLA), thousand sq m	379.8 / 230.6
Vacancy rate, %	10.1 ▲
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	418.3 ▲

* 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, 2015

Volume of opened shopping centres and vacancy rate dynamic



Source: Knight Frank Research, 2015

Largest shopping centres opened in Q1–Q3 2015

Object	Address	Total area (GBA), sq m	Leasable area (GLA), sq m	Developer
Q1				
Columbus	140 Varshavskoe Hwy	277,000	140,000	Mirs
Kuntsevo Plaza	19 Yartsevskaya St	245,000	65,000	Enka
CDM na Lubyanke	Bld 5 Teatral'ny 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 on Kievskoe Hwy	1.5 km from MKAD, Kievskoe Hwy	70,000	45,000	Tashir

Source: Knight Frank Research, 2015

Supply

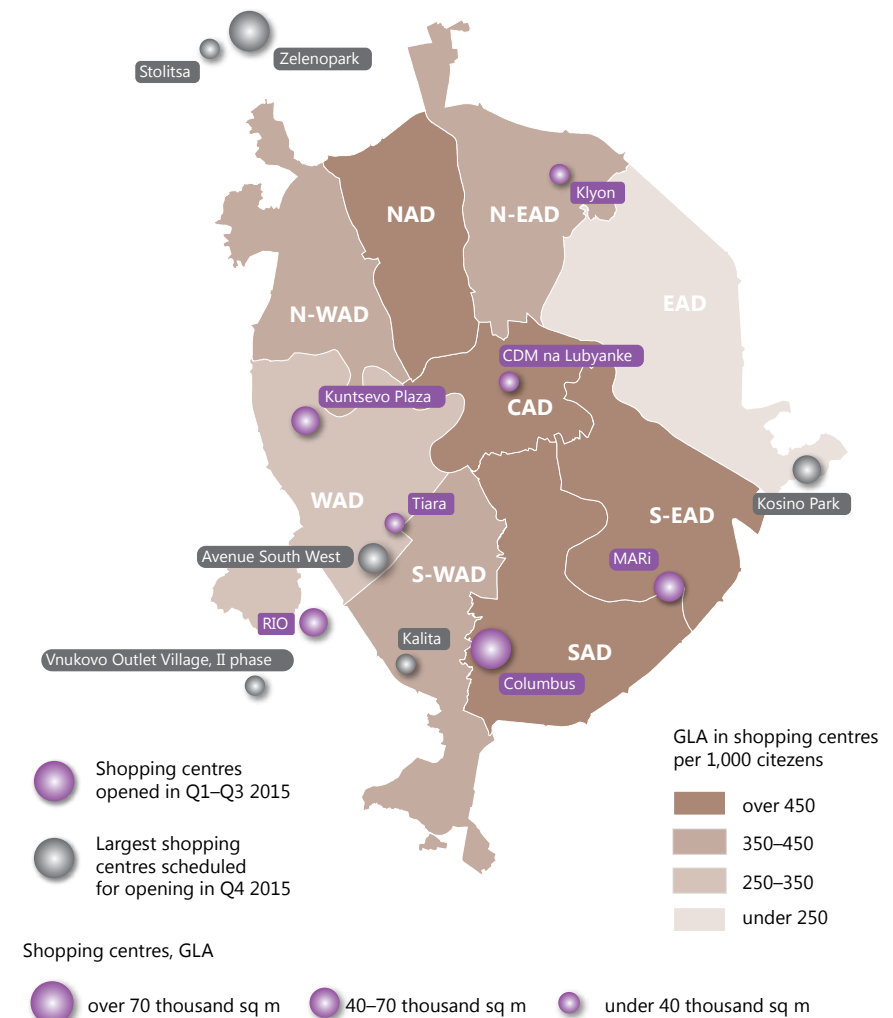
One shopping centre was opened in Q3 2015, it is RIO at Kievskoe highway, where Lenta hypermarket was opened in September (8,275 sq m).

Thus, 2015 was marked with opening of seven shopping centres of 848 thousand sq m (361.4 thousand sq m GLA). The cumulative volume of quality shopping centres of the capital approached 9.85 million sq m, while total supply of gross leasable area reached 5.1 million sq m.

The decentralization trend of the retail real estate market outlined several years ago, can be easily traced in the properties launched in 2015. It shall be emphasized that almost all shopping centres already launched or planned to be delivered soon are located in the districts significantly remote from the city centre. The only shopping centre opened within the Third Transport Ring was CDM on Lubyanka. Prior to that opening Fashion Season Shopping Gallery was the final one opened in the Central Administrative District (2012).



Shopping centres opened in Q1–Q3 2015. Largest shopping centres scheduled for opening in Q4 2015



Source: Knight Frank Research, 2015



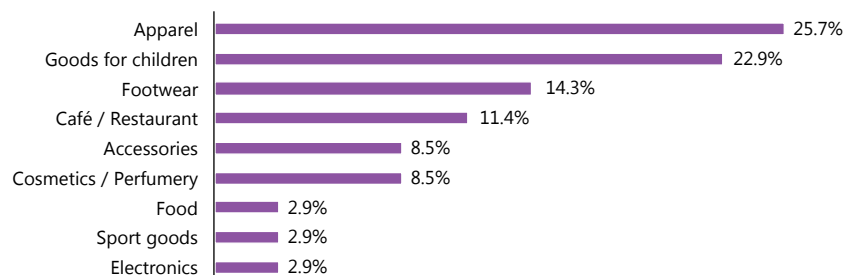
Gallery Kutuzovskiy

Demand

Amid negative influence of political and macroeconomic drivers the retailers pursue careful policy while choosing the location of its enterprises, they are considering the best sites in the most visited shopping centres.

In the meantime, it should be noted that the number of international brands entering the Russian market was not reduced in 2015 contrary to negative forecast: international chains that were not represented earlier in Russia are continuing to open its first stores. Proactive attitude is driven by more attractive commercial terms as opposed to the last year: the rents are down by 20–40% (depending on the quality of the facility), the majority of shopping centres adopted turnover rent policy which is calculated subject to its turnover. On top of that, high vacancy rate of retail space opens up opportunities to choose the most successful location for a

New international brands opened in Moscow by profile



Source: Knight Frank Research, 2015

start. It is critical to underscore that the favorable conditions for the expansion of international brands are also created as a result of the activity of developers, consultants and management companies, which are trying to make the projects maximally attractive and are willing to collaborate with new chains.

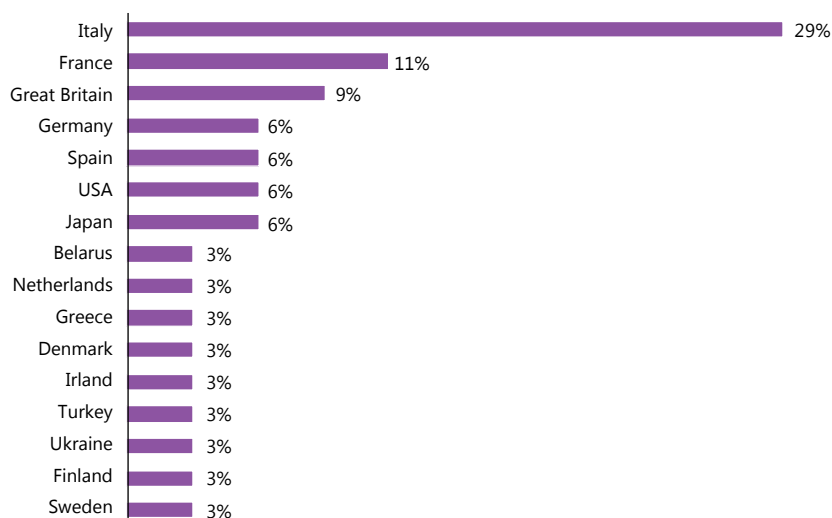
36 international chains launched its first enterprises and stores in Russia from the beginning of 2015, 20 of them were opened in Q3 2015. Five chains have started their development from regional markets: the first store of the American brand Lichi was opened in Novosibirsk; a chain of cafes OLIVA (Germany), perfume

International retailers opened its first store in Russia in Q1–Q3 2015

№	Brand	Country	Profile	Address	Price category
1.	Apple Shop	USA	Electronics	TSUM	Middle-up
2.	Bimbus	Italy	Goods for children	CDM on Lubyanka	Middle
3.	Bruuns Bazaar	Denmark	Apparel	Kuntsevo Plaza	Middle-up
4.	Circle of Gentlemen	Netherlands	Apparel	Fashion Season Shopping Gallery	Premium
5.	De Fonseca	Italy	Footwear	Evropark	Middle
6.	DOMINO EIGHT	Ukraine	Apparel	Street retail (Neglinnaya St)	Premium
7.	Fazer Baker's Market	Finland	Food	Street retail (Novy Arbat)	Middle
8.	Lichi	USA	Footwear	Sun City (Novosibirsk)	Middle
9.	Malo	Italy	Apparel	GUM	Premium
10.	Reisenthel	Germany	Accessories	FLACON Design Factory	Middle
11.	Buff Store	Spain	Accessories	Kuntsevo Plaza	Middle
12.	Seiko	Japan	Accessories	Street retail (Nicol'skaya St)	Different price categories
13.	Soocre'	Greece	Café / Restaurant	CDM on Lubyanka	Middle
14.	Stella Sport	Germany	Sport goods	Fashion Season Shopping Gallery	Middle-up
15.	ULRIC DE VARENS	France	Cosmetics / Perfumery	Gagarinskiy	Middle
16.	Wonders	Spain	Footwear	Atrium	Middle
17.	DeFacto	Turkey	Apparel	MEGA Teply Stan	Middle
18.	Mafrat	Italy	Goods for children	CDM on Lubyanka	Premium
19.	Rookie	USA	Goods for children	Metropolis	Middle-up
20.	Atos Lombardini	Italy	Apparel	Aviapark	Premium

Source: Knight Frank Research, 2015

New international brands opened in Moscow in Q1–Q3 2015 by country of origin



Source: Knight Frank Research, 2015

shops Bulgaria Beauty (Bulgaria) and the French fashion brand Pimkie were launched on the St. Petersburg market; clothing boutiques Saint James (France) were opened in Tumen and Tver`. We expect the introduction of at least 10 new brands, including the opening of the world-famous edutainment-park KidZania (in Aviapark shopping centre).

An increased activity by players in segment of goods for children is registered, which is primarily linked with the opening of high-quality specialized center CDM on Lubyanka, its concept encouraged to attract several international companies. Therefore, 8 new children's brands were put on the market of Moscow since the beginning of the year – Bimbus, Brums, H&M Kid's, Orchestra (Gagarinskiy), Original Marines, Silver Cross, Mafrat and Rookie (Metropolis).

Commercial terms

The tenants and developers of shopping centers continue to search for lease terms balanced and beneficial to all participants. Practically, the rental rate can be named "floating" in the current environment, as it depends on several "variable" values. For example, the lease payment may depend on tenant's sales volume (% of turnover, which is paid by the tenant, it is set depending on the profile, area, location of the store in the shopping center).

Also, the contract may stipulate lower and upper (rarely) border of the payment for the premises. In the event when at the end of the billing period the lease payment, which depends on the turnover is lower or higher than a fixed border, denominated in rubles or conditional units, the parties settle accounts based on "lease payment = upper/lower border of the range."

In that case, if the rental rate is denominated in conventional units, tenants are trying to fix the exchange rate (usually at the level of 50–60 rub./c.u.). In most cases, the landlords are ready to accept such terms.



Rental rates in modern shopping centres

Profile	Fixed rental rate, \$/sq m/year, end of 2014	Fixed rental rate, \$/sq m/year, Q3 2015	The share paid based on turnover, %
Hypermarket (>7,000 sq m)	100–250	9,000–19,000 rub./sq m/year	2–4
Urban hypermarket (3,000–7,000 sq m)	200–350	150–350	2–5
Supermarket (1,500–3,000 sq m)	250–500	200–500	5–7
White & Brown (1,500–3,000 sq m)	150–350	120–300	4–8
Sporting goods (1,500–2,500 sq m)	150–300	80–300	12–14
Goods for children (1,000–2,500 sq m)	200–400	150–350	8–12
Apparels (50–300 sq m)	600–2,200	500–1,800	21–30
Footwear (50–300 sq m)	900–2,500	500–2,000	25–30
Accessories (10–70 sq m)	2,200–4,000	1,000–3,000	18–26
Restaurants (500–1,000 sq m)	250–800	0–500	12–14
Restaurants (250–500 sq m)	300–1,200	0–600	12–14
Café / food-court (50–120 sq m)	1,500–2,300	1,100–2,000	12–18
Café / food-court (120–180 sq m)	1,000–1,500	500–1,300	7–12
Entertainment centre (200–1,500 sq m)	200–400	100–250	12–16
Entertainment centre / Movie theatre (2,000–5,000 sq m)	100–200	0–150	8–14

Source: Knight Frank Research, 2015

In addition, developers and management companies may offer discounts to tenants for the first lease year (in some cases for the first 2–3 years of the agreement). In the event if the rates have undergone significant reduction, the landlord tends to conclude short-term lease agreements or to ensure that the contract stipulates the revision of the commercial conditions after 1–3 years of the lease term.

Another variable in the calculation of the rental rate may be the vacancy rate in the shopping center. Generally, if there are more than 20% available in the facility, the tenants pay 80% of the payment amount. If more than 50% are vacant, the tenant has the right to pay only 50% of the payment amount.

Moreover, it shall be pointed out that in the negotiation process the majority of tenants aspire to agree with the landlord the rental rate, denominated in the national currency. It is common for hypermarket retailers and DIY segment.

Forecast

Six large shopping centres with 230.6 thousand sq m GLA will be set up in Q4 2015 (GBA – 379.8 thousand sq m). The facilities that are highly likely to be put into operation at the end of 2015 are:

- ♦ Avenue South-West (GLA – 40 thousand sq m). A shopping center is at the final stage of construction: the surrounding area is improved, finishing works are under way. It may be noted that this is the second facility of Tashir Group, which will be opened in 2015. Thus, about 15% of the new space will be delivered by the developer at the year end.

Largest shopping centres scheduled for opening in Q4 2015

Object	Address	Total area, (GBA), sq m	Leasable area (GLA), sq m
Zelenopark	Leningradskoe Hwy, 17 km from MKAD	140,000	110,000
Kosino Park	5 Svyatoozerskaya St	90,000	39,000
Avenue South-West	Intersection of Vernadskiy Ave and Pokryshkina St	70,000	40,000
Kalita	7 Novoyasenevskiy Ave	47,000	22,000
Vnukovo Outlet Village, II phase	Kievskoe Hwy, 8 km from MKAD	17,800	10,300
Stolitsa	11 Kutuzovskoe Hwy Bld 2314B Zelenograd	≈15,000	≈9,300

Source: Knight Frank Research, 2015

- ♦ Zelenopark (GLA – 110 thousand sq m). Development group 19 is a project developer. Currently, stand-alone hypermarket Leroy Merlin is a part of the shopping centre, as well as Darwin seasonal garden centre, which was opened in the spring of 2015. A future anchor tenant of the complex has been changed recently. Auchan hypermarket is expected to be launched in December in line with the first phase of the shopping center.
- ♦ Kosino Park (GLA – 39 thousand sq m) implemented by TEN Group of companies is at the final construction stage.
- ♦ Kalita can become the first shopping centre to be delivered in Q4 2015 (GLA – 22 thousand sq m). This centre is expected to play host to its customers already in October.

According to preliminary data, this year the growth of gross building area of high-quality retail properties will be 1.23 million sq m, while gross leasable area will be equal to more than 590 thousand sq m, which is a good indicator of development activity. Meanwhile, it should be noted that the suspension of development activity of many retailers together with such volume gain will inevitably lead to an increase in the vacancy rate.



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