RESEARCH

2016

RETAIL MARKET REPORT

Moscow

HIGHLIGHTS

The retail space growth has remained high for the third consecutive year.

Redevelopment shall be required in more than 40% of Moscow retail space by 2020.

The growth of ruble rates was registered in 2016 in new shopping centres for the first time since 2013, the increased rents were both asked by landlords and confirmed by tenants.

RETAIL MARKET REPORT MOSCOW

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"The track record of the Moscow retail real estate market was full of events in 2016: new shopping centres were opened, international operators entered and left the market, ambitious development plans were announced. However, it is more important to speak about the trends that will be developed in the future, in my view, than about the results of the past period. Given the rapid aging of the retail market, the beginning of active upgrading works of retail properties (and in some cases including the change of functionality) will become the global trend for the capital. The changes will also affect the tenant mix strategy: a modern buyer demands careful attention and innovative ideas. Experimenting with the concept has become, perhaps, not the most dangerous but sometimes even useful "exercises" against high risk of development in the current situation. As a result, the "cloning" of retail concepts was stopped and the expression of individuality in retail properties started to appear."

Supply

550.4 thousand sq m was the total gross leasable area of retail facilities entering the market in 2016 (GBA – 1,216.9 thousand sq m). The retail space growth has remained high for the third consecutive year.

Key indicators. Shopping centres*. Dynamics

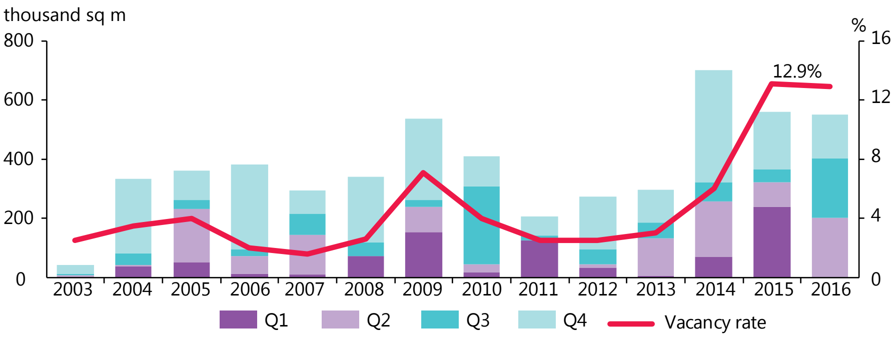
Shopping centres stock (GBA / GLA), million sq m	11.2 / 5.8 (11.3% ▲) / (3.7% ▲)**
Opened in 2016 (GBA / GLA), thousand sq m	1,216.9 / 550.4 (5.6% ▲) / (1.8% ▼)**
Scheduled for opening in 2017 (GBA / GLA), thousand sq m	875.3 / 433.9 (13% ▼) / (4.2% ▼)**
Vacancy rate, %	12.9 (0.2 p. p. ▼)**
Operating expenses, rub./sq m/year	2,500–9,000
GLA in quality shopping centres per 1,000 citizens	468.8 (8.6% ▲)**

* 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

** Compared to Q4 2015

Source: Knight Frank Research, 2017

Volume of new shopping centres opened and vacancy rate dynamics



Source: Knight Frank Research, 2017

EAD
- 589,454 sq m
- 433 sq m/1,000 citizens
- 17
- 34,674 sq m
- 2017: 25%
- 2020: 44%

N-EAD
- 447,824 sq m
- 453 sq m/1,000 citizens
- 15
- 29,855 sq m
- 2017: 36%
- 2020: 48%

ZelAD
- 169,406 sq m
- 712 sq m/1,000 citizens
- 7
- 24,201 sq m
- 2017: 22%
- 2020: 30%

NAD
- 719,203 sq m
- 621 sq m/1,000 citizens
- 17
- 42,306 sq m
- 2017: 20%
- 2020: 42%

N-WAD
- 624,671 sq m
- 442 sq m/1,000 citizens
- 16
- 39,042 sq m
- 2017: 33%
- 2020: 88%

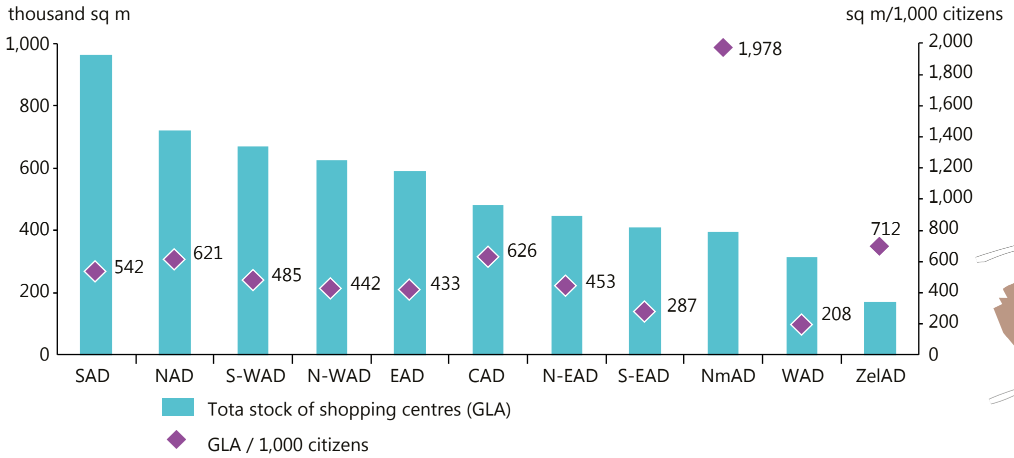
WAD
- 313,751 sq m
- 208 sq m/1,000 citizens
- 11
- 28,523 sq m
- 2017: 16%
- 2020: 68%

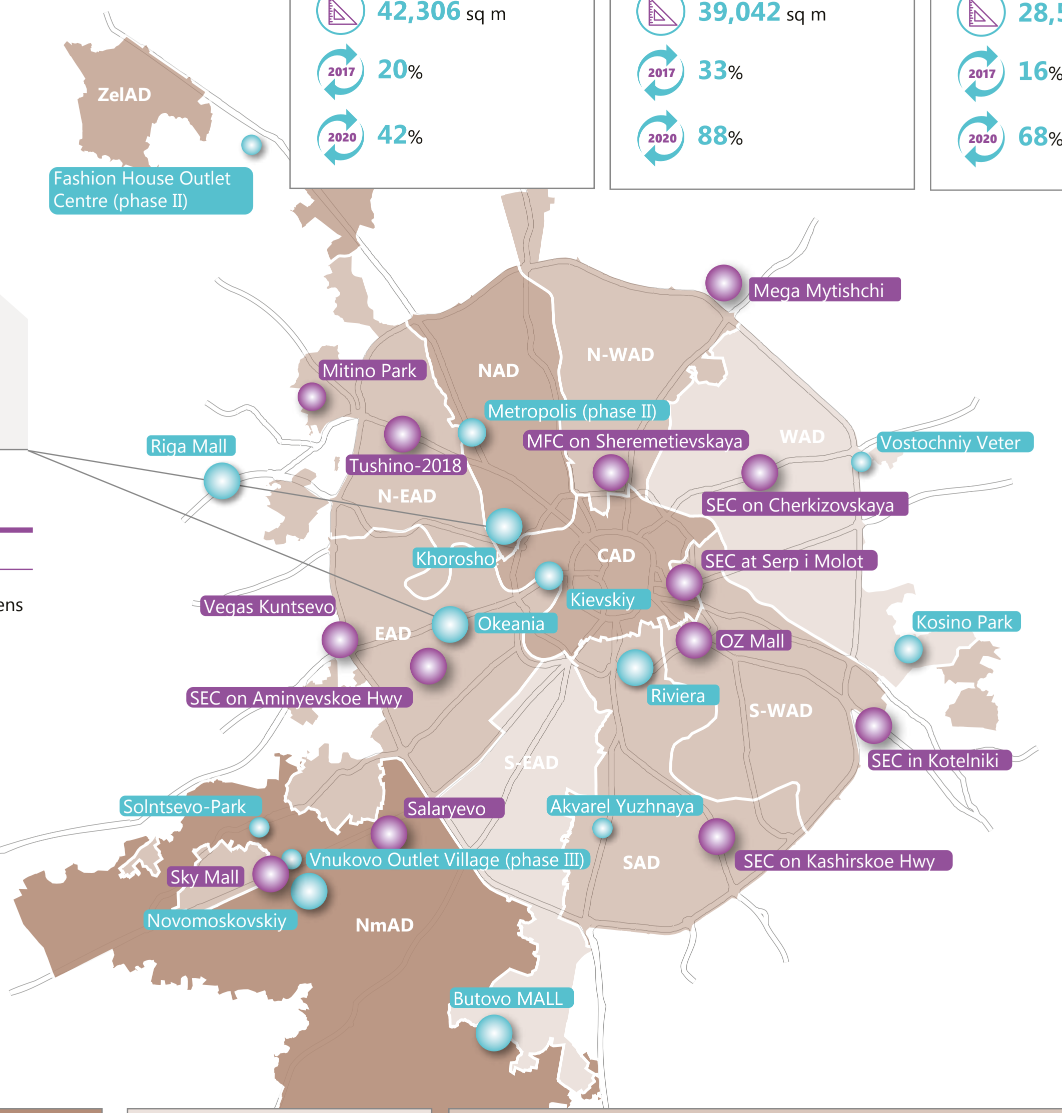
Unexpansive development of large-format retail facilities is typical of the Eastern Administrative District of the capital. Cherkizovo Transport Hub will most likely be the first modern shopping centre at Shchelkovskoe Highway. This is planned to be developed by Safmar Financial Group.

S-WAD
- 669,283 sq m
- 485 sq m/1,000 citizens
- 16
- 41,830 sq m
- 2017: 18%
- 2020: 63%

The delivery of Oceania (62 thousand sq m GLA) became one of the most positive and significant events of 2016: more than 70% of premises were operating at the opening. It is the flagship Moscow property of the major developer – TPS Real Estate. Khorosho! (GLA – 50 thousand sq m) became the second shopping centre also opened by the developer in the capital in 2016.

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





CAD
- 481,288 sq m
- 626 sq m/1,000 citizens
- 24
- 20,054 sq m
- 2017: 15%
- 2020: 37%

LEGEND

- Shopping centres opened in 2016
- Shopping centres scheduled for opening in 2017–2020

Shopping centres, GLA

- over 50 thousand sq m
- 30–50 thousand sq m
- under 30 thousand sq m

GLA in shopping centres per 1,000 citizens

- over 1,000
- 700–1,000
- 600–700
- 500–600

Indicators by the administrative districts

- Quality shopping centres total stock, sq m (GLA)
- Availability of quality retail space (GLA), sq m/1,000 citizens
- The number of shopping centres
- The average size of the retail facility, sq m
- The share of retail facilities requiring redevelopment, 2017, %
- The share of retail facilities requiring redevelopment, 2020, %

NmAD
- 395,890 sq m
- 1,978 sq m/1,000 citizens
- 10
- 39,589 sq m
- 2017: 7%
- 2020: 75%

Novomoskovsky Administrative District is now ahead of the rest in terms of availability of quality retail space (primarily due to low population density). The development of transport infrastructure of the district has stimulated the establishment of its retail segment. The development of major projects on the territory of the district may affect the attendance and turnover of operators in shopping centres located along Leninsky and Vernadsky highways, as well as along the south-western section of the Moscow Ring Road. First of all, this applies to outdated centres or centres which originally had flaws in their concept. They will fail to compete with new facilities in the conditions of qualitative development growth observed at the moment.

S-EAD
- 408,729 sq m
- 287 sq m/1,000 citizens
- 21
- 19,463 sq m
- 2017: 56%
- 2020: 81%

SAD
- 961,371 sq m
- 542 sq m/1,000 citizens
- 32
- 30,043 sq m
- 2017: 47%
- 2020: 61%

The largest quality retail space stock is still concentrated in the Southern Administrative District of the capital: it strengthened its leading position in terms of the total supply volume owing to the commissioning of Riviera in April 2016. Retail infrastructure is expected to actively develop in the medium term in the southern and south-eastern directions of the capital. Tenants choose facilities with more flexible lease terms or more attractive location in a highly competitive environment: thus, Decathlon anchor operator will close its store in Mosaica after opening in Riviera in 2016.

Source: Knight Frank Research, 2017

Demand

The upward market trend emerging in early 2016 continues to persist: the take-up rate of new space stays high. As a rule, the vacancy rate in new quality retail facilities is reduced tenfold for the year of operation. Notice that conceptual centres with good location are still highly sought-after by the market: their vacancy rate does not exceed 1.5–3%. In general, the total stock of retail space exposed to the market in the operating facilities decreased by 7% as compared to 2015 and reached a total of 650 thousand sq m (against the growth of space in existing centres by 3.7%).

The restoration of confidence of retail operators is becoming more pronounced: retailers are actively considering lease proposals and participate in negotiations fearing to miss the opportunity of the market starting to grow. In some cases, they discuss moving to a larger space with landlords.

Interestingly, 2016 became one of the most productive in the last decade in terms of the entry of new international operators to the Russian market: 55 retailers opened their first stores in various cities of Russia.

As a comparison: only 49 new brands entered the market in 2015, 11% less than in 2016. Remarkably, more than 40% of operators approaching the Russian market in 2016 belong to the above average price range.

Oceania

Shopping centres opened in 2016

Object	Address	GBA, sq m	GLA, sq m
Riviera	18 Avtozavodskaya St	298,000	100,000
Riga Mall	Novorizhskoe Hwy, 5 km from MKAD	157,000	80,000
Oceania	3 Slavyanskiy Blvd	136,600	61,820
Novomoskovskiy	2 Khabarova St	117,000	60,000
Butovo MALL	51 Chicherskiy passage	143,000	57,000
Khorosho!	Bld 1, 33 Khoroshevskoe Hwy	114,000	50,000
Kosino Park	5 Svyatoozerskaya St	79,000	39,000
Metropolis (phase II)	16 Leningradskoe Hwy	66,000	38,000
Kievskiy	2 Kutuzovskiy Ave	46,000	20,000
Vostochniy Veter	1st of May district, Schelkovskoe Hwy	17,000	15,000
Solntsevo-Park	32 Solntsevo Park district, Borovskoe Hwy	17,000	11,600
Akvarel Yuzhnaya	Bld 1, 9 Kirovogradskaya St	10,100	7,420
Vnukovo Outlet Village (phase III)	Kievskoe Hwy, 8 km from MKAD	10,500	6,100
Fashion House Outlet Centre (phase II)	6 Torgovo-Promyshlennaya St, Chernaya Gryaz village	5,650	4,500

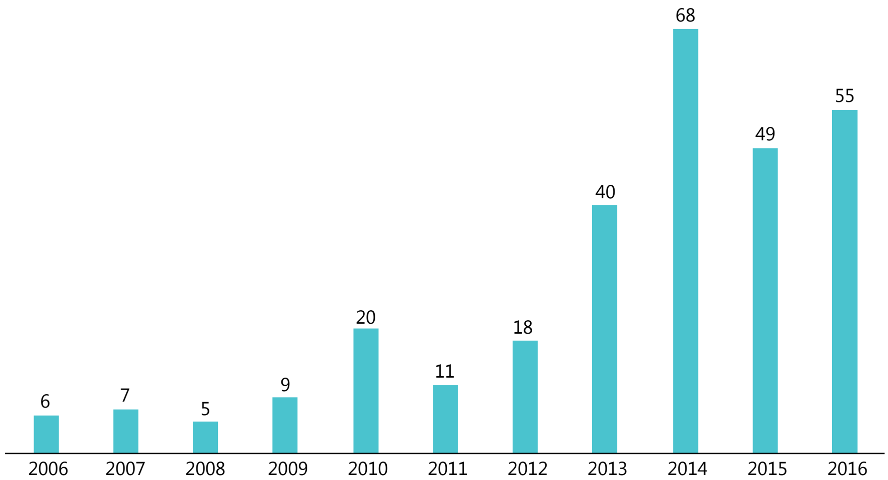
Source: Knight Frank Research, 2017

They are Charlotte Olympia – the young British brand, Barbour – the brand with the history (clothing, UK), Demurya home – the brand of Russian-French fashion house (clothing), Ferutdin Zakirov Atelier – a club store of men's suit (Uzbekistan/Italy), John Varvatos – boutique of men's clothing and accessories (USA), boutiques of Lindt chocolate (Switzerland) and Newby London tea (UK) and others.

The market witnessed some losses in 2016 despite the apparent recovering activity in the retail sector: the news broke about the closing of stores and enterprises of such international operators as Finlayson (household goods, Finland), La Senza (Lingerie), Magnolia Bakery (public nutrition; USA), the project for the development of Plus grocery discounter by Tengelmann Group German company was stopped, Inventive Retail Group refused to promote Prenatal Milano Italian brand. However, the number of international operators leaving the Russian market has decreased in comparison with 2015 (11 operators) or 2014 (12 operators).

The most obvious demand trend was the reduction of space occupied by grocery anchor tenants. In 2007 supermarkets or hypermarkets were the largest operators of retail facilities occupying 39.5% of space in a shopping centre. Today, less than 10% of space in a shopping centre are allocated for groceries in the tenant mix structure of new projects. This is partly due to the change of buyers' behaviour in the capital: the citizens of the modern metropolis have started to buy products in neighbourhood stores with an increasing frequency, forming a request for extensive development of this format. It should be noted that the number of grocery hypermarkets increased by 2.3 times over a ten-year period, supermarkets – by 2 times, and neighbourhood stores – by 11.5 times.

Volume of new international retailers opened in 2006–2016



Source: Knight Frank Research, 2017

It is important to note that the space of entertainment segment has almost doubled over 10 years of retail infrastructure development (from 7.9% to 14%). Sustainable global trend combining shopping and entertainment gradually develops into a mixture of shopping+entertainments+sport+education+art+events, thus creating demand for new formats: cookery schools, rope parks, theatres, quests, dance studios, driving schools, training area for radio-controlled models, exhibition spaces and other attractive projects appear in modern shopping centres. Such concepts usually accomplish the social function allowing to make the shopping process less tedious and to diversify the leisure time of citizens, but they are highly time-consuming for the buyer (time-consuming segment). The operators of this segment rank second by occupied space (14%) in the concept of modern shopping centres.

Moreover, the analysis of fashion segment can help tracing the scale of changes in the structure of shopping centres by the profile of operators for the ten-year period: they occupied about 20% of retail space in 2007, now there are more than 37% of them (the most common "profile" of a tenant).

Rental rates in modern shopping centres

Profile	Fixed rental rate*, rub./sq m/year	The share paid based on turnover, %
Hypermarket (>7,000 sq m)	3,000–10,000	1.5–4%
DIY (>5,000 sq m)	3,000–9,000	4–6%
White & Brown (1,300–4,000 sq m)	6,000–18,000	2.5–5%
Sporting goods (1,000–6,000 sq m)	6,000–10,000	6–8%
Goods for children (1,000–2,000 sq m)	6,000–15,000	8–12%
Apparels (400–1,000 sq m)	0–40,000	4–14%
Footwear (300–500 sq m)	0–45,000	7–12%
Entertainment (1,000–4,000 sq m)	0–8,000	9–12%
Food court	45,000–150,000	12–15%
Restaurant	0–25,000	10–12%

* Commercial terms had been discussed at negotiation process

Source: Knight Frank Research, 2017

Commercial terms

The growth of ruble rates was registered in 2016 in new shopping centres for the first time since 2013, the increased rents were both asked by landlords and confirmed by tenants. The good location of the retail facility and its quality tenant mix are the prerequisites for the activation of this process.

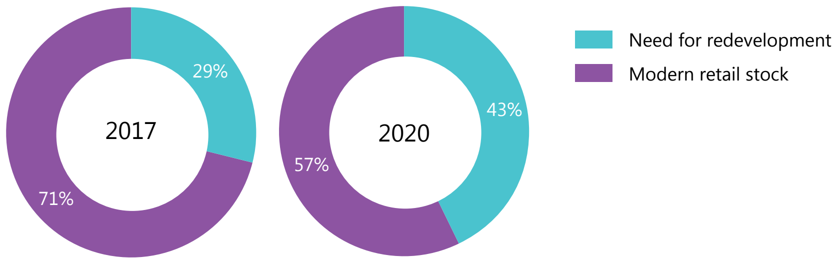
There has been a significant increase in rental rates in shopping centres where landlords decided to upgrade the facility: as a rule, the rent amount confirmed by tenants in such centres becomes considerably higher not only against previous commercial terms but against the average values.

Forecast

At least another sixteen shopping centres of various formats will most probably be delivered in Moscow in 2017. The largest of them will be Vegas Kuntsevo (GLA – 119.5 thousand sq m) and Shopping Centre at Kashirskoye Highway (GLA – 70.8 thousand sq m). Thus, the increase of quality retail real estate stock will be about 430 thousand sq m by the end of 2017 (about 875 thousand sq m GBA). However, it is possible that the lease campaign in some shopping centres will require significant time and resources, and, as a result, their commissioning will be postponed.

Interestingly, the new format of community-centres will enter the market in the medium term. This project is developed by ADG Group and involves the reconstruction of Moscow cinemas. Today, such format is not available in Russia.

More than 40% of Moscow retail space will require redevelopment by 2020, (GLA)



Source: Knight Frank Research, 2017

Largest shopping centres scheduled for opening in 2017

Object	Address	GBA, sq m	GLA, sq m
Vegas Kuntsevo	55 km from MKAD	286,870	119,470
SEC Kashirskoe Hwy	Bld 2, 61 Kashirskoe Hwy	195,500	70,800
Smolensky passage (phase II)	7–9 Snolenskaya Sq	58,510	46,000
SEC on Ryazanskiy Ave	20 Ryazanskiy Ave	95,700	30,000
Letniy Sad	107 Dmitrovskoe Hwy	n/a	21,000
Uzhniy	Bld 4, 9 Kirovogradskaya St	28,200	20,000
Zhulebino	Bld 1, 5 Aviakonstruktora Milya St	38,000	19,160
VTB Arena park	36, Leningradskiy Ave	30,000	17,180
SC on Chertanovskaya	20–22, Chertanovskaya St	22,000	17,000
Proletarskiy	24 Proletarskiy Ave	23,670	15,000
Galeon	Leninskiy Ave / Ostrovityanova St	28,800	14,000
Fili Grad	Bolshaya Filevskay St / Beregovoy passage	15,000	12,000
Metromall	73 Dmitrovskoe Hwy	13,780	9,990
Petrovskiy	6 Novopetrovskaya St	20,980	8,500
Zeleniy (Ogorod)	10, Ogorodnyi passage	9,150	7,000
Selectica	148 Varshavskoe Hwy	9,100	6,750

Source: Knight Frank Research, 2017

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