Q1 2016

RETAIL MARKET REPORT

MOSCOW

Supply

The supply growth of quality retail real estate of Moscow region have not been registered in Q1 2016: not a single shopping centre was opened. The historical data displays the absence of significant supply increase at the beginning of the year – a situation characteristic of the real estate market of the capital. 25% of the new space announced by developers in 2016 is very likely to be opened already in Q2 2016.

Demand

As reported by Watcom company the decrease of the attendance rate of shopping centres, recorded over the past two years, stopped in Q1 2016. Since mid-February, its positive dynamics is observed: in some periods (weekly analysis) this index exceeded the previous year by 9.2%. At the same time, the consumer confidence index, which reflects the cumulative consumer expectations of the population, still indicates very low values: according to Rosstat the figure was -30% in Q1 2016, down by 4 p. p. for the quarter.

In general, both indices results being relevant to the assessment of commercial real estate market condition do not cause any contradiction: attendance of retail properties is growing, but against the lack of optimism among the population the conversion of visitors into buyers may remain low.

It should be pointed out that the decline in the share of vacant space in shopping centres of the capital (by 0.6 p. p.) was recorded in Q1 2016. However that is mostly due to the lack of new shopping centres opened, but not the demand increase.

About 1 million sq m of retail space is being marketed by the end of Q1 2016. It is worth noting that active lease campaigns are still held in most shopping centres delivered to the market in 2015: circa 22% of this volume are offered for lease. And the share of facilities planned for commissioning in 2016 accounts for 35% of the marketed premises.

The interest of international operators to the Russian market is still alive: 13 new international brands opened their flagship stores in Q1 2016 in Russia, including Barbour (apparel, UK), Charlotte Olympia (footwear, UK), Demurya (apparel, Russia/France), John Varvatos (apparel, USA), Aigle (apparel&footwear, France), KidZania (edutainment, Mexico) and others. Most international operators began its development in Russia from the capital: the exception was a famous Japanese brand Fujifilm and Estonian fashion-operator Veta, which opened its first stores in St. Petersburg.

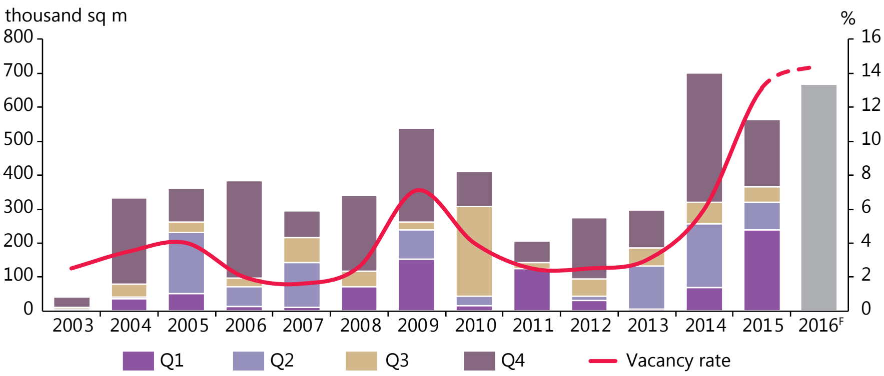
Key indicators*

Shopping centres stock (GBA / GLA), million sq m	10.1 / 5.3
Opened in Q1 2016 (GBA / GLA), sq m	0
Scheduled for opening in 2016 (GBA / GLA), million sq m	1.47 / 0.67
Vacancy rate, %	12.5
Base rents, rub./sq m/year (not including operating expenses and VAT)	
anchor tenants	0–15,000
retail gallery tenants	0–35,000
Operating expenses, rub./sq m/year	2,500–9,000
GLA in quality shopping centres per 1,000 citizens	427.7

* 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

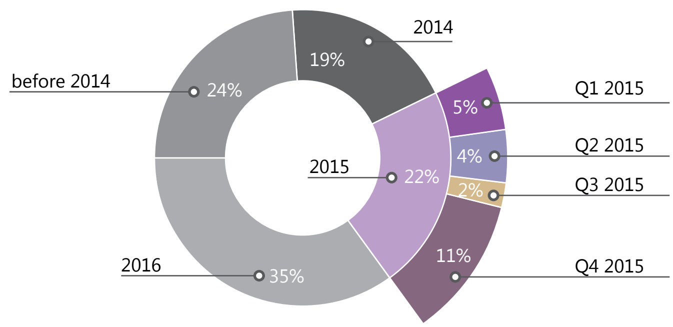
Source: Knight Frank Research, 2016

New delivery volume dynamics



Source: Knight Frank Research, 2016

The share of vacant space in shopping centres with different commissioning dates in the total amount of vacant space (about 1 million sq m)



Source: Knight Frank Research, 2016

Commercial terms

As a result of the correction of commercial terms observed in 2014–2015 the commercial real estate market almost switched to the ruble terms. The regulation of the Ministry of Industry and Trade of Russia (now only serves as guidelines) and the precedent of court dispute on foreign exchange contract also contributed to the transition to ruble calculation schemes of lease payments.

In general, the rental rates in shopping centres in Moscow did not change significantly in Q1 2016.

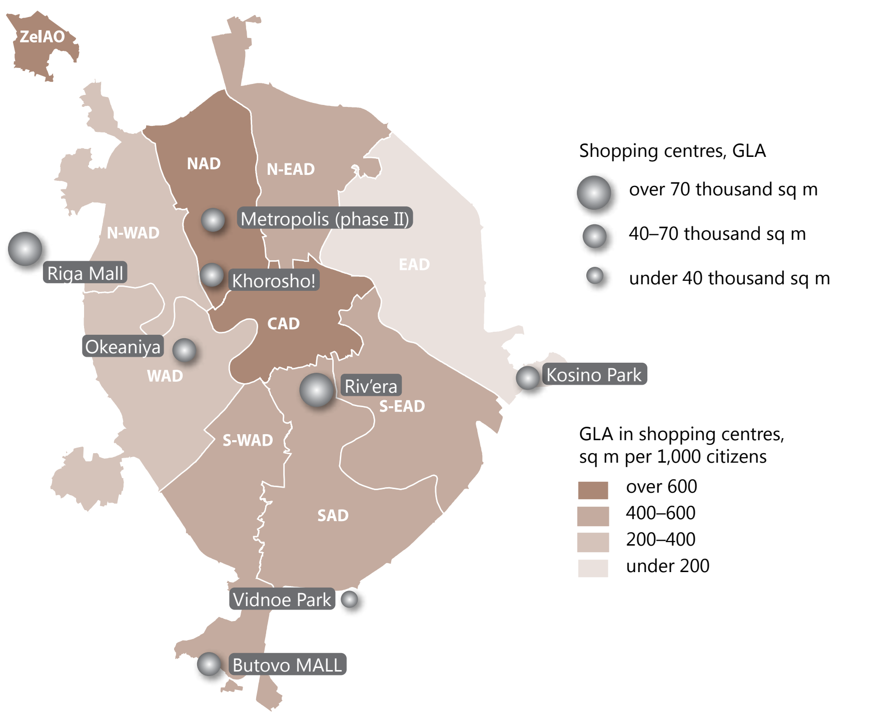
Forecast

20 new shopping centres can be opened during 2016, today they are in the final stages of construction and in the active brokerage phase. The total leasable area of these facilities is 665 thousand sq m (GBA – 1,470 thousand sq m). It is entirely possible that lease campaign of some shopping centres in the current crisis conditions will require significant time resources and will be prolonged, while commissioning will be postponed for future periods.

It is interesting to note that a significant share (about 17%) of new supply of 2016 will be formed by two large properties of TPS Nedvizhimost developer – Okeaniya shopping centre (60 thousand sq m GLA) and Khorosho! shopping centre (GLA – 50 thousand GLA).

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

Largest shopping centres scheduled for opening in Q2–Q4 2016



Object	Address	GBA, sq m	GLA, sq m
Riv'era	18 Avtozavodskaya St	298,000	100,000
Riga Mall	Novorizhskoe Hwy, 5 km from MKAD	157,000	80,000
Okeaniya	3 Slavyanskiy Blvd	137,000	60,000
Butovo MALL	Ostaf'yevskaya St / Chicherskiy passage	154,000	54,500
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
Vidnoe Park	M-4 Don, 4 km from MKAD	105,000	27,600

Source: Knight Frank Research, 2016

Commercial terms in modern shopping centres

Profile	Base rental rate*, rub./sq m/year, 2015	The share paid based on turnover, %
Hypermarket (>7,000 sq m)	0–10,000	1.5–4%
DIY (>5,000 sq m)	4,000–6,000	4–9%
White & Brown (1,300–4,000 sq m)	4,000–12,000	2.5–4%
Sporting goods (1,000–6,000 sq m)	0–10,000	8–10%
Goods for children (1,000–2,000 sq m)	6,000–15,000	8–15%
Apparels (400–1,000 sq m)	0–30,000	4–12%
Footwear (300–500 sq m)	0–35,000	7–12%
Entertainment (1,000–4,000 sq m)	0–6,000	10–13%

* Commercial terms had been discussed at negotiation process

Source: Knight Frank Research, 2016

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