



Q1 2013
RETAIL MARKET REPORT
Moscow
Knight Frank

HIGHLIGHTS

- In Q1 2013, only a single object was commissioned: the local shopping centre Tropa, so the total stock of retail area in modern shopping centers of Moscow practically has not changed.
- About 40 retail objects with a total area of more than 2,500,000 sq m are at various stages of construction and finishing works. However, by the end of 2013, delivery of 11 new shopping centres with a total area of 465 thousand sq m is expected.
- During the analyzed period, the activity of retailers remained at high level: the companies continue expansion on the Russian market, including also opening-up of remote regions.
- In the medium run, one can expect emergence of new formats, such as power centres, shopping and community centres, retail parks, and themed shopping malls, as well as an increase in the number of projects under redevelopment.

RETAIL MARKET REPORT



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"Despite the impression that Russian retail real estate market is going through a "calm", its closer examination reveals that an evolutionary rather than a revolutionary change is taking place. Interesting projects started to develop, and not only in the capital city. New retailers are entering the market or have plans to do so. Professional retail drive to the East also continues: along with the already opened shopping centres in cities such as Novosibirsk, Surgut and Barnaul, new objects are being opened in Krasnoyarsk, Omsk, Irkutsk, Angarsk, and (what some 7 years ago seemed almost impossible) new projects are announced in Vladivostok, Khabarovsk and Yuzhno-Sakhalinsk. This trend is backed by both, federal and local retailers".

Main events

- The government of Moscow has approved the construction project of Kuntsevsky Hub on site with an area of 91 ha located in the immediate vicinity of Kutuzovskaya metro station. The total area of the object will amount to 173.5 thousand sq m.
- In 2014, a shopping mall of a classic retail park format will open along the Gor'kovskoe Hwy, located between the towns of Noginsk and Pavlovsky Posad. It is also worth noting that the companies LLC Dorinda Invest and Trinity Russian Retail Partners have also previously announced plans for the construction of retail parks. However, according to the announced date of delivery, the project at the Gor'kovskoe Hwy will be the first object of this format in Russia.
- As part of the international exhibition MIPIM-2013, an agreement was reached between Sberbank CIB and the developer

Key indicators. Shopping centres*		Dynamics
Total shopping centre stock (total area/GLA**), million sq m	6.57 / 3.51	▲
Opened in Q1 2013 (total area/GLA), thousand sq m	7.8 / 5.5	
Scheduled to open in 2013 (total area/GLA), thousand sq m	509 / 302	
Vacancy rate, %	2.5	►
Base rents, \$ per sq m per annum (not including operating expenses and VAT)		
anchor tenants	100–500	►
retail gallery tenants	700–4,500***	►
Operating expenses, \$ per sq m per annum	80–260	►
GLA in quality shopping centres per 1,000 population	293****	▼
* 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.		
**** Reduction of the indicator in Q1 2013 is connected with recalculation of Moscow population.		
Source: Knight Frank Research, 2013		

Lidkom Investment Limited concerning the crediting of a shopping centre project Zelenopark (GLA – 100 thousand sq m), which will be located at 37 km of the Leningradskoe Hwy near a toll highway, which is currently under construction.

- In the early 2013, GC Regions announced a project of creating a chain of theme parks under the DreamWorks Animation brand. The first object of this format on the Russian market will open in St. Petersburg, and the second one – in Moscow.
- Construction of a hypermarket Lenta in Solnechnogorsky district of Moscow region was announced: the retailer has completed acquisition of a site with an area of about 3 ha located in the Moscow region. According to the Lenta Company, 30 more objects of the chain are planned for delivery in the region.
- A resolution regulating the placement of outdoor summer cafes beside the stationary public catering facilities was adopted. The legislative initiative will affect more than 700 seasonal cafes and restaurants that will operate in Moscow in the period from April 1 to November 1, 2013.

Supply

Another retail object, the SC Tropa with a total area of 7.8 thousand sq m (GLA – 5.5 thousand sq m) was commissioned in Q1 2013. Its opening was expected back in Q4 2012, but by the end of the year, only its chain restaurants became operational: the McDonald's and Menza, which are actually the tenants of the shopping centre, but have independent entrances.

Thus, by the end of Q1 2013, the total stock of modern retail area in the shopping centres of Moscow remained virtually unchanged (GLA – 3.51 million sq m).

Analysis of shopping malls opening periods reveals certain patterns, which can be explained with ease. The "peak" times for market delivery of such objects coincide with those of maximum shopping activity for retail objects of any type. These include the second half of December, the last ten days of February to the beginning of March, the period preceding the start of summer holidays and the end of August – the beginning of a new business season after the summer lull, and at the same time – the start of a new academic year. It is also worth mentioning that a significant



amount of new shopping malls opening at the beginning of the year, usually results from introduction of the projects, which for various reasons were not open at the end of last year. In other cases, the new stock volume index for retail area introduced in the first months of the year is not significant compared with the total annual growth. For example, in Q1 2006, only 25 thousand sq m were delivered, whereas the annual growth of retail area for that year has almost reached a 1,000,000 sq m. However, it should be noted, that the retail area growth in Q1 2013 was the lowest for the last 8 years.

Demand

A high level of demand for retail area is notable on the part of international chain store companies: a famous French manufacturer and operator of clothing Paule Ka signed a contract with a company JamilCo, which acquired the right to distribute the brand's products in Russia. A jewelry store TrollBeads (Denmark) has opened in the Moscow SEC Atrium this February. French clothing and footwear chain store Gemo (Eram Group), which will open in Magnitogorsk in the near future, will be the first of a kind for this brand in Russia, while clothing stores Blue Inc (England) will appear in Moscow and St. Petersburg. International foodservice operators also enter Russian market: in April 2013, coffee houses Lavazza (Italy) will open in Moscow on Mira Avenue and Pokrovka street, while in St. Petersburg it will be a cafe of Spanish chain Llaollao.

The largest share in the structure of demand for the Q1 2013 has fallen, as before, on the major federal Russian companies as retailers continued active development, and opening up new formats and regions. For example, in 2013 a Megastil chain (second-hand goods) opened its first store in Moscow with an area of 10 thousand sq m on Skladochnaya street. Representatives of Russian Fitness Group (fitness-clubs World Class) announced plans for creation of a chain of budget fitness clubs with the area of 1,500–2,000 sq m, while Lenta, a retailer from St. Petersburg, announced plans for development in Moscow and the Moscow region.

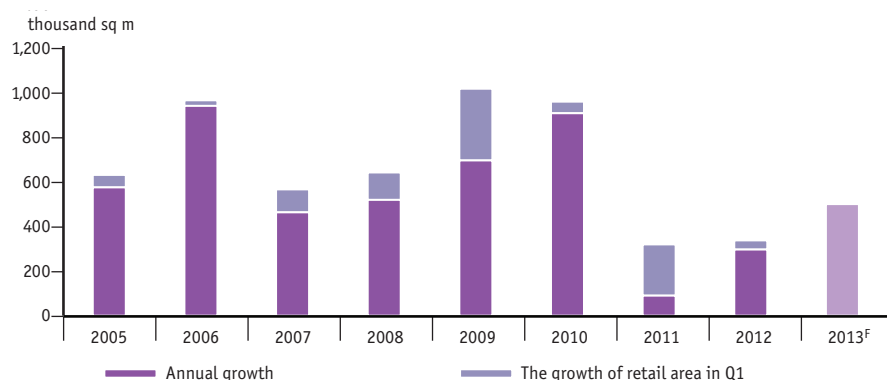
Commercial terms

During Q1 2013, business conditions have not been subjected to correction. Lease agreements in which the rate scheme for calculating rental payments is fixed depending on the index of the operator's turnover, dominate the market: more than 70% of contracts with tenants on the capital city market are arranged this way.

It should be noted that transition to the new scheme of calculating the rental payments began back in 2008–2009. However, because a more favorable and predictable business



The growth of retail area in Q1 and the annual growth in 2005–2013



Source: Knight Frank Research, 2013

Rental rates in modern shopping centres in Moscow, Q1 2013

Profile	Fixed leased rate*, \$ per sq m per annum	The share paid based on turnover, %
Hypermarket (>7,000 sq m)	100–250	2–4
Urban hypermarket (3,000–7,000 sq m)	150–350	2–4
Supermarket (1,500–3,000 sq m)	250–500	4–6
DIY (>5,000 sq m)	200–350	4–6
Home appliances(1,500–3,000 sq m)	250–500	4–5
Sporting goods (1,500–2,500 sq m)	400–1,200	4–5
Goods for children (1,000–2,500 sq m)	250–450	9–12
Apparels (50–300 sq m)	800–2,500	12–16
Footwear (50–300 sq m)	900–3,000	12–16
Accessories (10–70 sq m)	2,500–4,500	11–14
Movie theatres	150–250	3–5
Entertainment centres (100–1,500 sq m)	250–500	8–12
Entertainment centres (2,000–5,000 sq m)	100–200	4–7

* Excluding operating expenses and VAT (18%).

Source: Knight Frank Research, 2013

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Moscow

environment was required for the decision to change the terms of trade by the commercial operators and developers, the share of agreements that take into account retailers' turnover has grown in the post-recession period, namely in 2011–2013.

Forecast

Developers continue to exhibit high activity: in Moscow, throughout 2012, the construction of large shopping centres, commissioning of which was suspended during the period of stagnation, resumed. This trend continued into Q1 2013 and was relevant not only for Moscow, but also for the regional markets of retail real estate.

As of March 2013, about 40 retail objects (total area of more than 2,500,000 sq m) were at various stages of construction and finishing works. It is very likely that by the end of 2013, 11 shopping centres with a total area of 465 thousand sq m (GLA – 258 thousand sq m) will enter the market.

Besides, additional phases of already operating shopping centres are being built: until the end of 2013, the retail area of SEC Otrada in Mitino will grow by 30 thousand sq m due to the opening of a shopping gallery. The second phase of an Outlet Village Belaya Dacha is also expected to be.

The projects, which have not yet been implemented are of great interest to all market participants. Moreover, many of them are quite extensive. It is highly unlikely that they will enter the market in their original form: their



concept is outdated, existing and potential competition has changed, as have the tenants' requirements. Realizing this, the owners of such properties, adapt the said concepts to current market requirements, which will allow them to create competitive objects even in areas with high surrounding competition. It should also be noted that in some cases development of a new project with revision of its function

or changes in the volume of retail component might be required.

Thus, in the medium run, one should expect the emergence of new formats, such as power-centers, community and trade centers, retail parks, and themed shopping malls, as well as an increase in the number of projects, which have been redeveloped.

Shopping centres scheduled for opening in Q2–Q4 2013

Project	Address	Total area, thousand sq m	GLA, thousand sq m
Goodzone	Bld 12 Kashirskoe Hwy	122,065	65,500
GLOSS	109 Leninsky Ave	76,000	35,000
Raikin centre	8 Sheremet'evskaya St	75,000	35,000
Fashion House Outlet centre	Chernaya Gryaz, Leningradskoe Hwy	38,580	28,765
Vnukovo Outlet Village	Kievskoe Hwy, 8 km from MKAD	47,565	26,862
Sportex	2 Kabelnaya 5 th St	32,000	22,000
MZ	Bld 36 Mikluho-Maklaya St	15,700	13,000
Alfavit	Intersection of Kulikovskaya St and Znamenskie Sadki St	14,000	12,000
Izmailovsky	42 Pervomayskaya St	16,700	8,370
Akvarel Yuzhnaya	Bld 1, 9 Kirovogradskaya St	10,500	7,000
Perovo	61A Perovskaya St	13,500	5,000

Source: Knight Frank Research, 2013

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