

Russia

The complicated economic and geopolitical situation of 2014 in Russia has led to the shrinking of turnover growth rate (2.3% vs traditional 11%) and to the reduction of turnover for many retailers. The growth in the share of households that have switched to cheaper brands, as well as reduced frequency of purchases or expenses for one-time purchase are also notable. Some people prefer to stock up goods in advance, which results in the increase of hypermarkets and small wholesale shops attendance.

Many retailers revised their development plans for the Russian market noting the correction of consumer demand. The "medium plus" category operators suffer the most in this situation, as the target audience of this segment show the greatest prudence in financial matters in times of recessions.

Furthermore, the continuing weakening of the ruble puts considerable pressure on the operators that sell European and American goods, as it leads to the shrinking of business margins. As an example, one could name a group of companies "Maratex", which decided to close the shops of OVS, River Island and Esprit chains in Russia, which it was developing as franchise.

Meanwhile, many Western and Russian strong brands intend to use the current situation to strengthen their positions and pursue active expansion.

In a highly competitive real estate market, retailers feel free to choose sites for their stores considering only the best shopping centers of the capital with the highest traffic. As a result, when negotiating the terms,

Supply stock growth rates in the cities of Russia, 2007–2014



Source: Knight Frank Research, 2014

developers of many projects are forced to meet the tenants' demands, giving them substantial discounts (for example, the so-called step-rent – a discount from the base lease rate for the initial years, followed by gradual growth), increasing the duration of lease vacations, fixing the ceiling rates etc. Furthermore, the accounting practices where the value of discount percent depends on the occupancy of the facility is also being implemented. The average rental rate on the market dropped by 15–20%.

When renegotiating or signing new contracts, the companies-tenants insist on fixing the exchange rate corridor for lease payments calculation. It should be noted that no nominal unit for calculating rental rate is established on the market for this period.

The unfavorable economic situation has also influenced the growth of real estate

development projects. Specifically, there appeared funding problems: the largest Russian banks have significantly reduced the volumes of their lending. Even high-quality projects experience some complications. Considering current situation, the developers who are able to complete the project without attracting credit financing are in the most advantageous position. Others are forced to delay the delivery dates, which results in significant revisions to the forecasts of high-quality retail space provision for residents of regional cities.

In total, there are more than 200 shopping centers with a total area of 15 million sq m at different stages of delivery in Russia (excluding Moscow and the Moscow region) to date. Moreover, in 2014, the total supply grew by 2.75 million sq m (GLA – 1.64 million sq m).

Moscow

Nine shopping facilities with the total area of 675 thousand sq m (GLA – 318 thousand sq m) were delivered over the first 10 months in 2014. As a result, by the end of October, the amount of high-quality retail space in Moscow shopping centers reached 8.37 million sq m (GLA – 4.36 million sq m), bringing GLA per 1,000 citizens index to the to 360 sq m.

Delivery of shopping centers by stages (phase-based, floor-based development), as well as technical delivery of facilities are among the steady market trends of the past 5 years. As a rule, at the time of technical opening of new centers 30–95% of the retail gallery's area is empty with only the key shops of anchor tenants open.

Major shopping centres, delivered in Russia (excluding Moscow and Saint Petersburg) in January–October 2014

City	Name	GBA / GLA, sq m
Samara	Ambar	150 000 / 90 000
Yekaterinburg	Grinvich 4 phase	120 000 / 84 000
Novokuznetsk	Planeta	158 000 / 72 000
Petrozavodsk	Lotos Plaza	105 000 / 62 800
Tver	Torgovy park №1	65 000 / 55 000
Magnitogorsk	Kontinent	80 000 / 50 000
Saratov	Oranzhevy	56 500 / 36 140
Tomsk	Izumrudny gorod	42 300 / 30 700
Kostroma	RIO	47 000 / 26 000
Ufa	Arkada	58 000 / 25 000

Source: Knight Frank Research, 2014

Thus, only a small share of shops are operating in the newly opened SCs Hanoi-Moscow, Alfavit and OrangePark.

Several large shopping centers with the total area of 795 thousand sq m (GLA of 447 sq m) are expected to open before the end of the year. Among them MFC Kuntsevo Plaza, SEC Avia Park, SEC Mozaika, as well as SEC Mari. The growth of supply stock for the year may reach the figure of more than 1.4 million sq m, which is a record level for the market over the past ten years. The space provision will thus grow to 395 sq m per 1,000 citizens.

Moscow shopping centers attendance in October has dropped by 4.8 percent compared to the same period in 2013. According to Watcom Group Company forecast, until the end of 2014, this figure will persist at -5% relative to the level of 2013.

Saint Petersburg

In 2014, the development of retail real estate market of Saint Petersburg was not as active as in the previous year. Four shopping centers with a total area of over 240 thousand sq m (GLA – 116 thousand sq m) were delivered over the period from January to October of the current year, which is 20% below the figure for the same period in 2013. However, provision of high-quality retail space remains high 500 sq m per 1,000 citizens, which is almost 1.4 times the ratio of Moscow.

It should be noted that market delivery of many facilities announced for this period was moved to 2015. For example, the opening of SEC Piter-Raduga and the outlet-center Fashion House Outlet Centre will take place only in 2015.

In the short term, reconceptualization of existing facilities with the main purpose of adapting the shopping center to the demands of contemporary market will become the main direction for the development of commercial real estate. SEC London Mall (2013) can serve as the one of the most successful examples of such renovation, as it was filled to about 90% at the time of opening, which is quite high. Presently, several shopping centers are undergoing the renovation. For example, the SC Podsolnukh will become the first stylized outlet-center in St Petersburg under the brand of Villa Outlet Center.

Rental rates in Moscow shopping centers

Type	Base Rental rate \$/sq m/year	The share paid based on turnover, %
Hypermarket (>7,000 sq m)	100–250	2–4
City hypermarket (3,000–7,000 sq m)	200–350	2–4
Supermarket (1,500–3,000 sq m)	250–900	4–6
DIY (>5,000 sq m)	200–350	4–6
Household appliances (1,500–3,000 sq m)	250–400	2,5–6
Sporting goods (1,500–7,000 sq m)	150–300	4–8
Goods for children (1,000–2,500 sq m)	200–400	8–12
“Clothing” profile gallery operators (50–300 sq m)	600–2,200	11–16
“Footwear” profile gallery operators (50–300 sq m)	900–2,500	12–16
Accessories (10–70 sq m)	2,000–4,000	11–14
Movie theater	150–250	7–12
Recreational center (100–1,500 sq m)	200–400	8–12
Recreational center (2,000–5,000 sq m)	100–200	4–7

Source: Knight Frank Research, 2014

Moscow and Saint Petersburg shopping centers delivered in January–October 2014

Name	Address	GBA / GLA, sq m
Moscow		
Vegas Crocus City	66 km, MKAD	295,000 / 105,000
Vesna!	intersection of MKAD and Altufyevskoye Hwy	126,000 / 56,000
Reutov Park	Reutov, 45 Nosovikhinskoye Hwy	90,000 / 41,000
Vodny	5 Golovinskoye Hwy	48,500 / 32,500
Hanoi-Moscow*	146 Yaroslavskoye Hwy	39,750 / 31,946
Moskvorech'e	52 Kashirskoye Hwy	29,750 / 16,650
OrangePark*	26 Leninskaya Sloboda St	16,500 / 10,200
MZ	36 Mikluho-Maklay St	15,700 / 12,400
Alfavit*	6 Kulikovskaya St	14,000 / 12,000
Saint Petersburg		
Evropolis	84A Polyustrovskiy Ave	141,700 / 60,440
Monpans'e	59 Planernaya St	58,500 / 27,400
Torgovy dvor	7B Moscovskoye Hwy	20,941 / 15,900
Admiral	4/1 A Malaya Morskaya St	20,000 / 12,000

* Technical opening of the shopping center took place
Source: Knight Frank Research, 2014