

RESEARCH



2017  
RETAIL MARKET  
REPORT  
Moscow

## HIGHLIGHTS

199,000 sqm were delivered in 2017 plummeting to a 10-year low.

Vacant premises in shopping centres were actively occupied by tenants due to the reduction of new delivery; the final vacancy rate did not exceed 8.5% in 2017 (-4.4 p.p. YoY).

37 new international retail players approached the Russian market in 2017 - 33% less statistically against the comparable period a year earlier.

Existing shopping centres in the Moscow market are becoming outdated despite the active campaigns of the largest developers of retail properties to perform reconception of their projects, which may lead to an increase of the proportion of facilities requiring redevelopment to 45% by 2020.

# RETAIL MARKET REPORT MOSCOW



**Evgenia Khakberdieva**  
Shopping Mall Leasing Director,  
Knight Frank

"The year 2017 became indicative in terms of tenant demand for quality shopping centres in Moscow. We can expect an increase in the activity of retail developers as early as 2018 taking into account the low delivery level of 2017 contrasting with the growing demand from tenants".

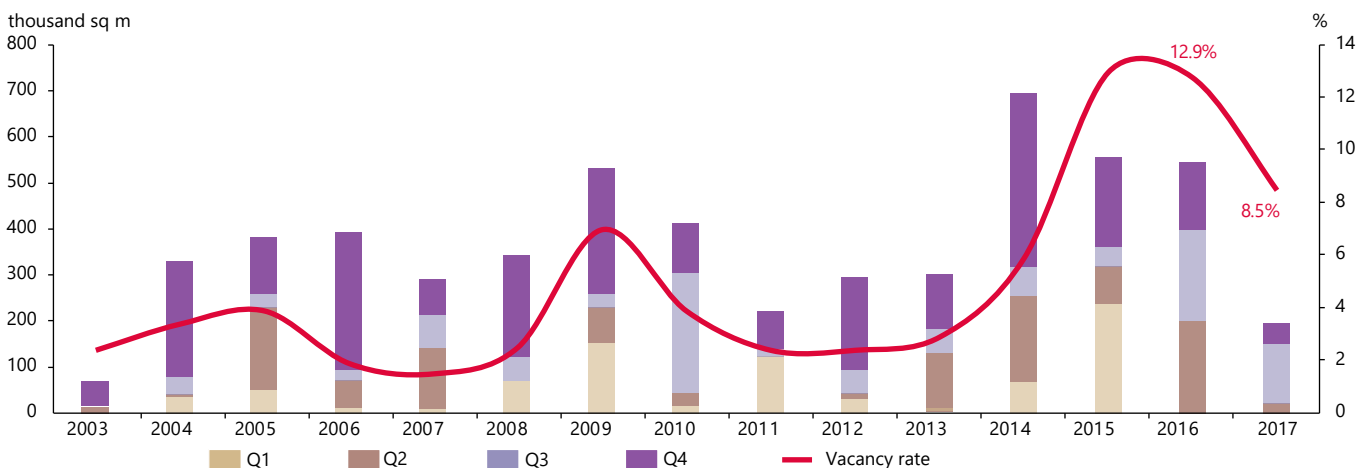
## Key indicators. Shopping centres\*. Dynamics

Shopping centres stock (GBA / GLA), million sq m	12/6.21
Opened in 2017 (GBA / GLA), thousand sq m	439.7/199
Scheduled for opening in 2018 (GBA / GLA), thousand sq m	≈767/≈324
Vacancy rate, %	8.5 (4.4 p. p. ▼)**
Fixed rental rent:	
Retail gallery tenants, rub./ sq m/year	0–45,000
Anchor tenants rub./ sq m/year	3,000–20,000
Operating expenses:	
Retail gallery tenants, rub./ sq m/year	6,000–10,000
Anchor tenants rub./ sq m/year	1,500–3,000
GLA in quality shopping centres per 1,000 citizens	501.6

\* The table shows the indicators of quality professional retail properties. A professional shopping centre is one or a group of architecturally matched buildings with a total area of more than 5,000 sqm, united by a common concept and unified management.  
\*\* Change against the beginning of 2017.

Source: Knight Frank Research, 2018

## Volume of delivered shopping centres and vacancy rate dynamics



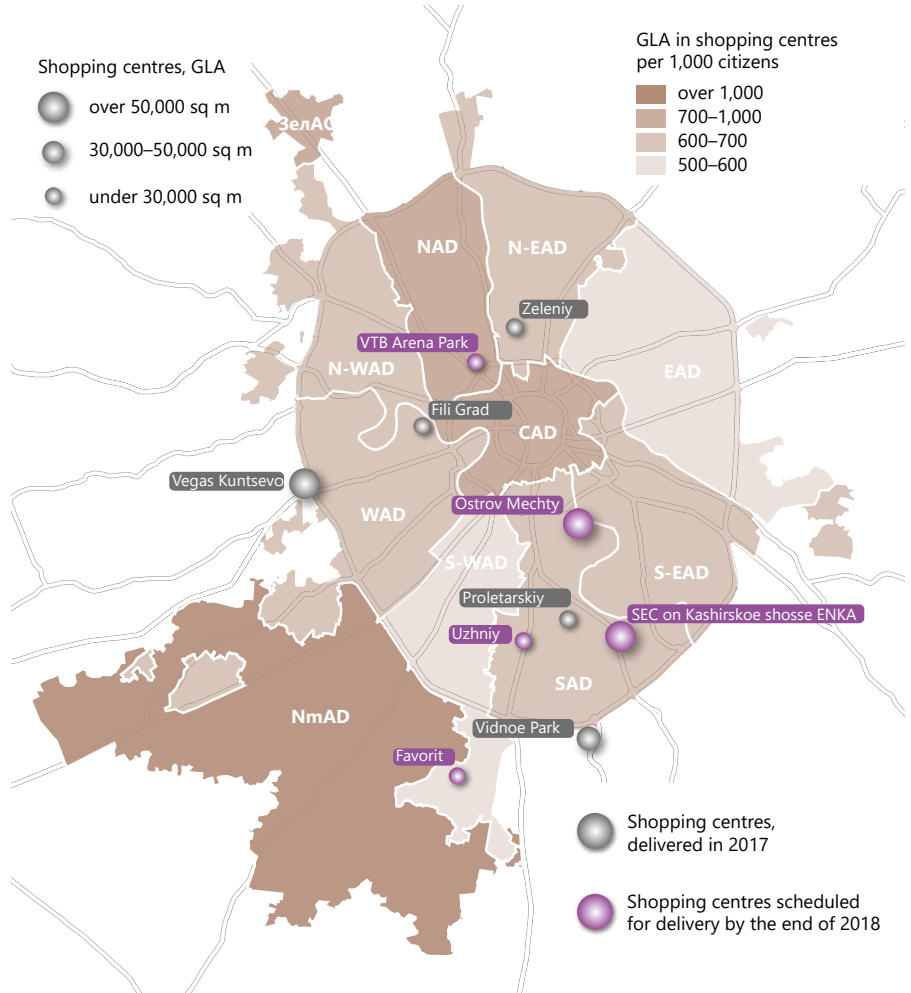
Source: Knight Frank Research, 2018

## Supply

5 quality retail properties with a total leasable area of 199,000 sq m entered the Moscow market on the results of 2017 – which was the lowest delivery volume for the past 10 years. The largest 2017 project was Vegas Kuntsevo shopping and entertainment centre (GLA – 119,500 sq m, GBA – almost 287,000 sq m) – the third Moscow-based project of the development company Crocus Group. The last project of similar scale was opened in Moscow three years ago – in Q1 2015. It was Columbus shopping and entertainment centre with 140,000 sq m of leasable area.

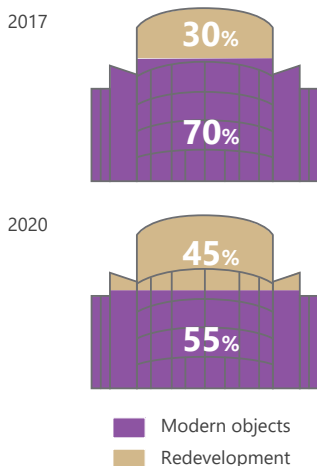
Significantly, the campaign of the largest developers on the reconstruction and redevelopment of existing retail facilities is underway to extend the "life span" of their projects and attract new customers. For example, Kuntsevo Plaza multifunctional complex with a GBA of 235,000 sq m was opened in 2015 in the place of the demolished Kapitoliy shopping centre near Molodezhnaya metro station. The fate of the outdated Kapitoliy project will be repeated by the same developer: a retail and shopping centre will be opened on Kashirskoye highway already in 2018 (GLA – 70,200 sq m), the redevelopment of Kapitoliy on Sheremetevskoy shopping and entertainment centre is planned. Zolotoy Vavilon Otradnoe (more than 20,000 sq m GLA), Pyatoye Avenue (20,000 sq m GLA) and GoodZone (over 65,000 sq m GLA) projects are waiting for reconception.

### Shopping centres opened in 2017. Largest shopping centres scheduled for delivery in 2018



Source: Knight Frank Research, 2018

### Objects for redevelopment 2017 vs 2020



Source: Knight Frank Research, 2018

### Delivery of high quality shopping centres in 2017

Object	Address	GBA, sq m	GLA, sq m
<b>Q1</b>			
Proletarsky	24 Proletarsky Ave	23,700	15,450
Zeleny	10 Ogorodniy passage	9,150	7,000
<b>Q2</b>			
–	–	–	–
<b>Q3</b>			
Vegas Kuntsevo	56 km from MKAD	286,872	119,467
Fili Grad	Bld 26, 5 Beregovoy passage	15,000	12,000
<b>Q4</b>			
Vidnoe Park	M-4 Don, 4 km from MKAD	105,000	45,000

Source: Knight Frank Research, 2018

## RETAIL MARKET REPORT. MOSCOW

Over 30% of existing shopping centres in Moscow were outdated and required renovation by the results of 2017 despite the active campaigns of the largest market players. According to our estimates, the level of existing shopping centres becoming obsolete will exceed to 45% by 2020 if this trend persists and developers will not go ahead with their retail space renovation more actively.

### Demand

Vacant premises in shopping centres were actively occupied by tenants due new delivery reduction: the final vacancy rate, which had been 12.9% at the end of 2016, did not exceed 8.5% in 2017.

The largest volume of vacant premises was recorded in projects that entered the market in 2016: every fourth square meter is vacant here at present. They were: Aquarel' Yuzhnaya, Butovo MALL, Khorosho!, Vostochny Veter, Novomoskovskiy. The rental campaign in these facilities is in full swing.

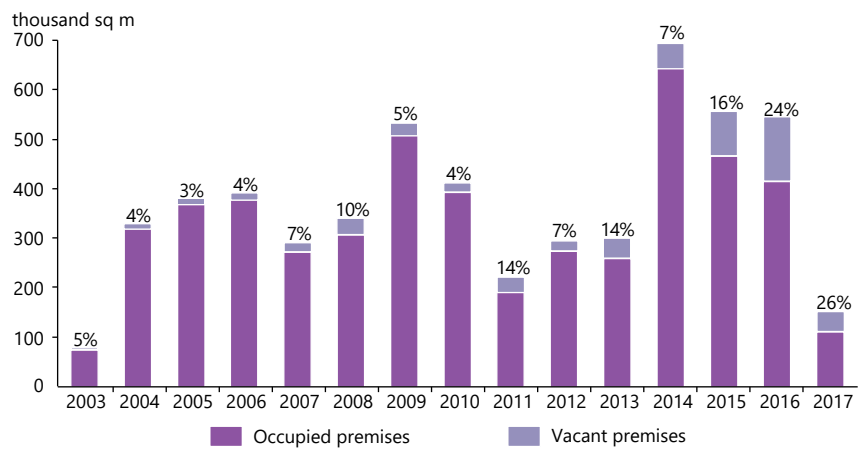
However, we expect that the vacancy rate in the conceptual properties put into operation in the past few years will go down due to the supply reduction of new quality facilities in the Moscow market.

8 new international retail operators entered the Russian market in Q4 2017 – this figure was almost three times higher in the same period last year, when 22 players had opened their stores and establishments. 7 operators started their development from the capital market, one brand – the sports goods operator Lescon (Turkey) – started on the Voronezh market in Centre Gallery Chizhov, located in Voronezh.

Thus, 37 new international retailers were put on the Russian market for Q1–Q4 2017 – 33% less statistically against the comparable period a year earlier – when 55 retailers had started their projects. The level of new brands entering the market in 2017 was equal to low performing 2013, when there had appeared only 40 new international operators.

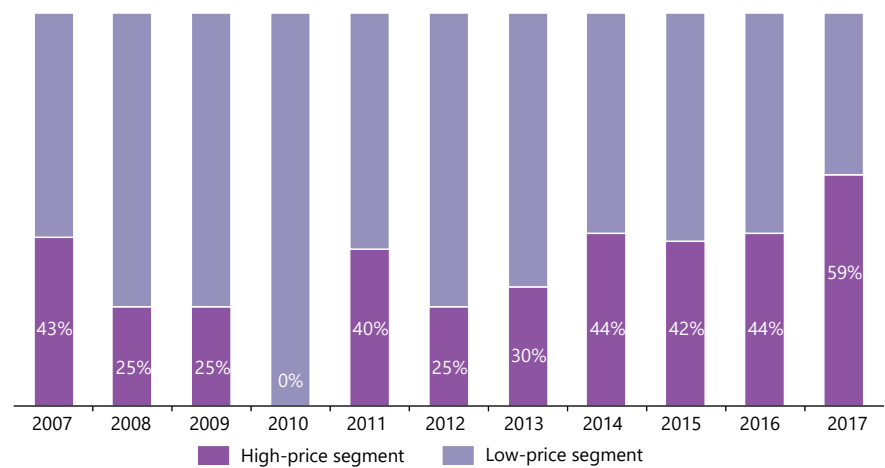
It is noteworthy that 59% of operators approaching the Russian market in 2017 were positioned in a high price segment – they had accounted for 44% of the total amount a year earlier. The outstanding newcomers were the jewelry boutique Mauboussin (France) on Nikolskaya street, its opening was

Vacancy rate in retail facilities delivered in different years



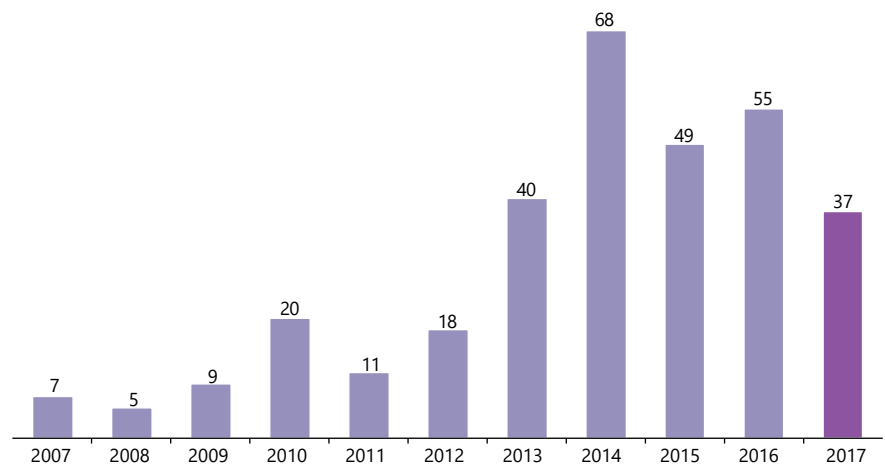
Source: Knight Frank Research, 2018

The structure of brands put on the Russian market over the past 10 years classified by price segment



Source: Knight Frank Research, 2018

Volume of new international retailers opened in 2007–2017



Source: Knight Frank Research, 2018

---

International retailers, opened its first store in Moscow in 2017

---

	Brand	Country	Profile	Price segment
1	Ahimsa	Italy	Apparel / Footwear / Lingerie	Upper middle
2	Aquazzura	Italy	Apparel / Footwear / Lingerie	Upper middle
3	DJI	China	Appliances / Electronics	Middle
4	Eataly	Italy	Cafe / Restaurant	Upper middle
5	Eglo	Austria	Household goods	Upper middle
6	Giorgio Armani Beauty	Italy	Cosmetics / Perfumeriy	Middle
7	High by Claire Campbell	Italy	Apparel / Footwear / Lingerie	Upper middle
8	Huawei	China	Appliances / Electronics	Middle
9	Japonica	Japan	Cosmetics / Perfumeriy	Middle
10	L.K.Bennett	Great Britan	Apparel / Footwear / Lingerie	Upper middle
12	MC2 Saint Barth	Italy	Apparel / Footwear / Lingerie	Upper middle
11	Meizu	China	Appliances / Electronics	Middle
13	Mirdada	Belarus	Goods for children	Middle
15	Palais des Thes	France	Tea boutique	Upper middle
14	Peter Kaiser	Germany	Apparel / Footwear / Lingerie	Upper middle
16	Zanellato	Italy	Accessories	Upper middle
17	Zloci Store	Spain / Ukraine	Apparel / Footwear / Lingerie	Premium
18	Truefitt&Hill	Great Britan	Services	Upper middle
19	Officine Gullo	Italy	Household goods	Upper middle
20	Plein Sport	Germany	Sporting goods	Premium
21	Mandarina Duck	Italy	Accessories	Upper middle
22	Tucano Coffee	Moldova	Cafe / Restaurant	Middle
23	Hanro	Switzerland	Apparel / Footwear / Lingerie	Upper middle
24	Barracuda	Italy	Apparel / Footwear / Lingerie	Upper middle
25	BioTechUSA	USA	Sporting goods	Middle
26	Il Gufo	Italy	Goods for children	Upper middle
27	ara	Germany	Apparel / Footwear / Lingerie	Middle
28	Mimioriki	Kazakhstan	Goods for children	Middle
29	Lescon	Turkey	Sporting goods	Middle
30	Comma	Germany	Apparel / Footwear / Lingerie	Middle
31	TRIB3	USA	Fitness club	Upper middle
32	Under Armour	USA	Sporting goods	Middle
33	Disney Игрушки	USA	Goods for children	Middle
34	JURA Store	Switzerland	Appliances / Electronics	Upper middle
35	3INA	Spain	Cosmetics / Perfumeriy	Middle
36	Mauboussin	France	Jewellery	Premium
37	Assunta Madre Moscow	Italy	Cafe / Restaurant	Premium

Source: Knight Frank Research, 2018

announced in the summer, but was held in late December 2017; the Moscow branch of the premium Italian restaurant Assunta Madre Moscow on Povarskaya street (until the end of 2017 the restaurant worked in a test mode, but was already opened for visits); the long-awaited children's toy

and gift store Disney Toys in Centralny Detsky Magazin; American premium fitness club TRIB3 in Lesnoy lane, as well as sports goods store Under Armor (USA), its flagship boutique was opened in Metropolis shopping and entertainment centre.

The results of 2017 indicated that the profile of new brands coincided with the trends of previous years: almost one third (11 out of 37) of new operators were of clothes/footwear/underwear profile, occupying both average and above average price segments. Thus, the brands

of the above-mentioned profile were leading among all new operators that entered the Russian market in 2017. Other segments occupied approximately equal market shares, but they lagged behind the leading direction strongly – 4 operators each of sports goods, children's goods and technology/electronics segments, 3 representatives each from cosmetics and perfumery and public catering segments. The remaining segments were represented by a couple of operators or by single players.

32% of the international brands approaching the Russian market in 2017 were of Italian origin, thus extending the trend of 2016. However, this year such an interesting tendency can be observed as the emergence of players from Kazakhstan and Moldova: the brands of these countries rarely appear on the lists of newcomers on the Russian market.

In 2017, 8 players announced the closure of their stores in Russia, some of them were: Finlayson (household goods, Finland), Takko Fashion (department store, Germany) and Mamas&Papas (goods for children and expecting mothers, Great Britain). By comparison, 5 foreign brands were withdrawn from the market in 2016, 11 operators in 2015, and in 2014 – 12 foreign retail companies.

## Commercial terms

There were no significant changes of rental rates in shopping centres as a result of 2017, but due to the low level of new quality supply, for large chain operators rental rates in 2017 increased by 10%.

## Forecast

Despite the low delivery level of new quality retail space in 2017, Moscow was not a leader to provide residents with quality retail space among the cities with a million population (4th position with an indicator of 501,600 sq m/1,000 residents), demonstrating a potential for the construction of new shopping centres.

About 324,000 sq m of retail space will be commissioned in 2018 at the capital market according to the plans announced by the developers of retail properties. Such large retail facilities as Ostrov Mechty shopping and entertainment centre (80,000 sq m GLA) and the redevelopment project of the shopping centre on Kashirskoye highway by ENKA TC developer (GLA – 71,000 sq m) are declared for delivery. A number of projects also announced for commissioning in 2017 were not implemented, and their delivery is planned for H1 2018 – they are the second phase of Yuzhny shopping

centre (20,000 sq m GLA) VTB Arena Park (17,000 sq m GLA) and Galeon Shopping Centre (14,000 sq m GLA).

We expect a small vacancy rate increase in the new shopping centres - up to 9% due to the new delivery in 2018, but the vacancy level in operating shopping centres functioning for more than two years will decline.

Interestingly, the territories outside the Moscow Ring Road may become the future location of large retail clusters in the next 3 years, where metro stations are being built or planned. 16 metro stations were opened in these areas from 2003 to 2017, and about 15 more are planned to be completed by the end of 2020. The transport development and residential construction lead to the population increase and improvement of infrastructure in these areas. Thus, residential areas relatively remote from the Moscow ring road with metro stations nearby will be attractive for developers thanks to the guaranteed flow of visitors. For example, 432,000 sq m of housing will be delivered in the district of Salarievo in 2019, and Salaris shopping centre with a total area of 310,000 sqm will be the part of the transport hub. And a shopping centre with a leaseable area of about 100,000 sq m is planned for construction close to Kotelniki metro station by 2019.

### Rental rates in modern shopping centres

Profile	Fixed rental rate***, RUR/sq m/year	The share paid based on turnover, %
Hypermarket (>7,000 sq m)	4,500–10,000	1.5–4
DIY (>5,000 sq m)	3,000–9,000	4–6
White & Brown (1,300–4,000 sq m)	8,000–20,000	2.5–5
Sporting goods (1,000–6,000 sq m)	6,000–12,000	6–8
Goods for children (1,000–2,000 sq m)	6,000–18,000	8–10
Apparels (400–1,000 sq m)	0–35,000	4–12
Footwear (300–500 sq m)	0–45,000	7–12
Entertainment (1,000–4,000 sq m)	4,000–8,000	9–15
Food court	45,000–150,000	12–15
Restaurants	10,000–25,000	10–12

\*\*\* Commercial terms had been discussed at negotiation process

Source: Knight Frank Research, 2018

## Largest shopping centres scheduled for delivery in 2018

Name	Address	GBA, sq m	GLA, sq m
Ostrov Mechty	Nagatinskaya poima	280,000	80,000
SEC on Kashirskoe highway	Bld 2, 61 Kashirskoe highway	195,500	70,800
Ffavorit	Bld 9, Uzhnobotovskaya St	37,000	22,900
Uzhniy 2nd phase	Bld 4, 9 Kirovogradskaya St	28,200	20,000
VTB Arena Park	36, Leningradskiy Ave	30,000	17,200

Source: Knight Frank Research, 2018

## Examples of operating quality shopping centres close to metro stations located outside the Moscow Ring Road

Name of a metro station outside the Moscow Ring Road	Line	Shopping Centre within walking distance from a metro station	(GLA), sq m
Myakinino	Arbatsko-Pokrovskaya	Vegas Crocus City Crocus City Mall	112,500 29,030
Buninskaya Alleya	Butovskaya	Butovo Mall	57,000
Ulitsa Starokachalovskaya	Butovskaya	Viva! Alphavit	21,900 12,000
Boulevard Admirala Ushakova	Butovskaya	Vitte Mall	23,000
Lermosntovskiy Prospect	Tagansko-Krasnopresnenskaya	Drive	23,000
Pyatnitskoe shosse	Arbatsko-Pokrovskaya	Mandarin	17,700
Mitino	Arbatsko-Pokrovskaya	Mitino Lad'ya Kovcheg	7,500 13,400 5,600
Novokosino	Kalininsko-Solntsevskaya	Reutov Park	41,000
Boulevard Dmitriya Donskogo	Serpukhovsko-Timiryazevskaya	Severnoe Siyanie Krug	10,000 8,000

Source: Knight Frank Research, 2018



SEC in hub Salaryevo

### RESEARCH

#### Olga Shirokova

Director, Russia & CIS

[Olga.Shirokova@ru.knightfrank.com](mailto:Olga.Shirokova@ru.knightfrank.com)

### RETAIL

#### Evgenia Khakberdieva

Shopping Mall Leasing Director

[evgenia.khakberdieva@ru.knightfrank.com](mailto:evgenia.khakberdieva@ru.knightfrank.com)

+7 (495) 981 0000

[KnightFrank.ru](http://KnightFrank.ru)



© Knight Frank LLP 2018 – This overview is published for general information only. Although high standards have been used in the preparation of the information, analysis, view and projections presented in this report, no legal responsibility can be accepted by Knight Frank Research or Knight Frank for any loss or damage resultant from the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank in relation to particular properties or projects.

Reproduction of this report in whole or in part is allowed with proper reference to Knight Frank.