RESEARCH

H1 2017

RETAIL MARKET REPORT

Moscow

HIGHLIGHTS

Two retail properties (GLA – 22,500 sq m) were commissioned in the Moscow market in H1 2017. The indicator of new market entry of the retail space has become one of the lowest for the last 14 years.

There has been a sustainable rental rates growth in redesigned conceptual retail facilities.

There was no high-performance activity of international retail operators within H1 2017: 19 new international retail chains entered the Russian market.

Experience shows that even a semi-annual down time of a retail project requires an obligatory audit of conceptual solutions.

RETAIL MARKET REPORT MOSCOW

Alexander Obukhovsky
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"We are witnessing the collapse of the usual format of one of the pillars of the classical retail – the hypermarket – both in the world and in Russia: there have been changes in teams, development strategies and, most importantly, concepts in all chains. The primary saturation with hypermarkets has taken place in the largest cities of Russia, the cost-cutting race to stand on in competition with each other has reached the threshold, and financiers are handing over the reins of power to the conceptualists. In the near future, we might expect the appearance of very interesting concepts by Auchan and Karousel, that have nearly become bored, and the latest trendsetter – today the most relevant Globus – will present a new format any time soon without slowing down – Globus 3.0".

Key indicators. Shopping centres*. Dynamics

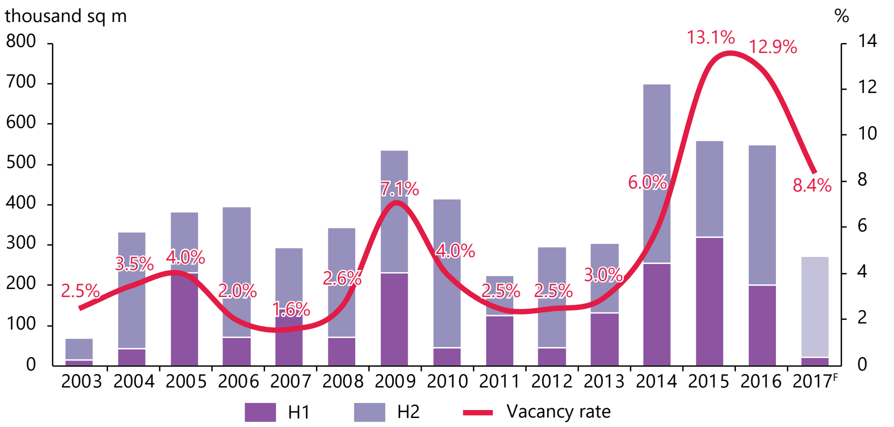
Shopping centres stock (GBA/GLA), million sq m	11.6/6.03
Opened in H1 2017 (GBA/GLA), thousand sq m	32.9/22.5
Scheduled for opening in 2017 (GBA/GLA), thousand sq m	≈520/≈250
Vacancy rate, %	8.4 (4.5 p. p. ▼)**
Operating expenses:	
retail gallery tenants, rub./sq m/year	6,000–10,000
anchor tenants, rub./sq m/year	1,500–3,000
GLA in quality shopping centres per 1,000 citizens	487.4

* 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 2016

Source: Knight Frank Research, 2017

Volume of opened shopping centres and vacancy rate dynamic



Source: Knight Frank Research, 2017

Shopping centres opened in H1 2017

Object	Address	GBA, sq m	GLA, sq m
Proletarsky	24 Proletarsky Ave	23,700	15,450
Zeleny	10 Ogorodniy passage	9,150	7,000

Source: Knight Frank Research, 2017

SUPPLY

Two retail properties were commissioned in the Moscow market in H1 2017, notably both were delivered in Q2, and their total retail space was 22,450 sq m (GBA – 32,850 sq m). The indicator of new market entry of the retail space has become one of the lowest for the last 14 years.

The newly opened shopping centres – Zeleny (GLA – 7,000 sq m) and Proletarsky (15,450 sq m) – are located outside the Third Transport Ring and are district format facilities.

Supply

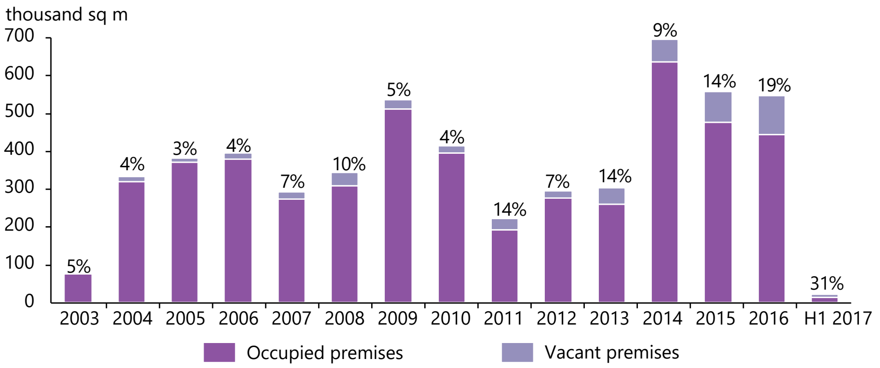
Vacant premises were actively occupied by tenants due to the new delivery reduction: the final vacancy rate, which was 12.9% at the end of 2016, dropped by 2.7 p. p. (up to 10.2%) in Q1 2017 and by the end of H1 2017 it even reached the minimal value since the beginning of 2015 – 8.4%.

The largest volume of vacant premises was recorded in properties that came into the market in 2016: currently every fifth square metre is vacant here. Recall that the following shopping centres were opened in 2016: Aquarel Yuznhaya, Butovo MALL, Khorosho!, Vostochny veter, Novomoskovskiy. The rental campaign in these objects is still underway.

A considerable volume of vacant premises is also preserved in the facilities of 2014 (every tenth square metre) and 2015 (every seventh square metre). However, it should be pointed out that the take-up rate of new space has remained high: for example, the vacancy rate in shopping centres opened in 2015 has fallen from 60% to 19% (by 41 p. p.) within two years.

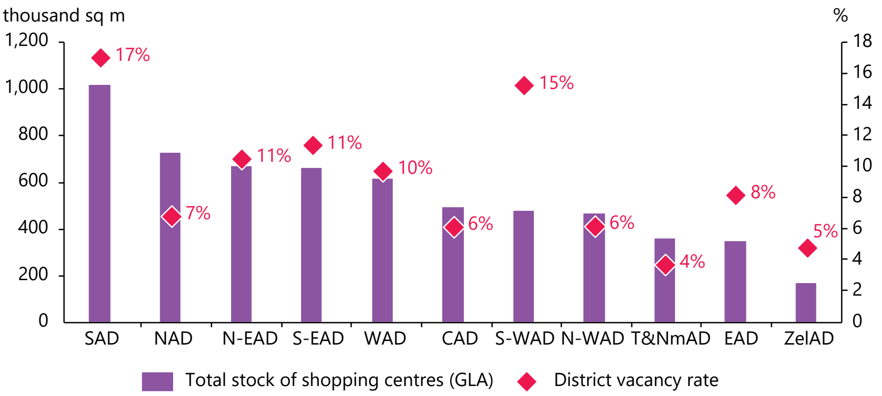
In total, more than half a million square metres of retail space is vacant in the functioning shopping centres of the capital. The maximum amount of vacant space has been recorded in the Southern Administrative District: almost

Vacancy rate in retail facilities opened in different years



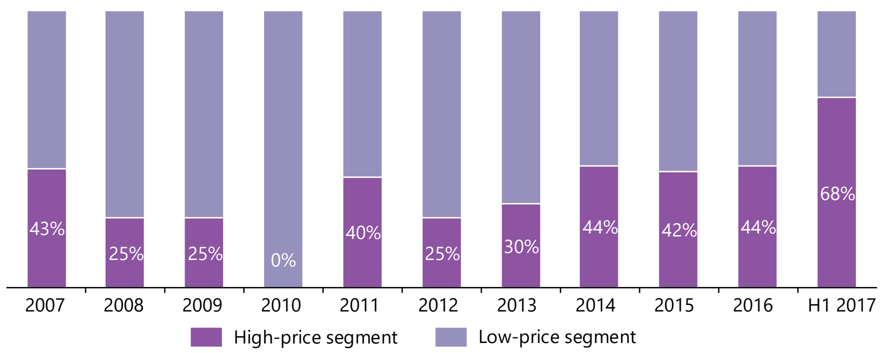
Source: Knight Frank Research, 2017

The volume of retail space and the vacancy rate in the administrative districts



Source: Knight Frank Research, 2017

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



Source: Knight Frank Research, 2017

90,000 sq m (or 17% of the total vacant premises in Moscow) are vacant out of 1.1 million sq m of retail space.

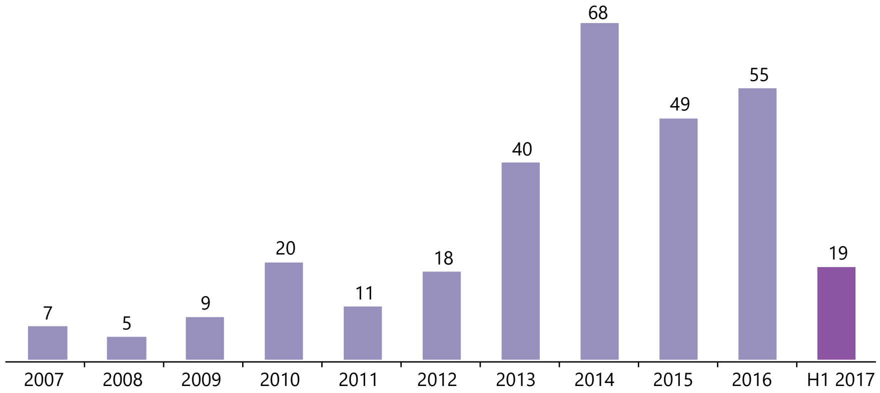
In the first half of 2017, there was no advanced performance of international retail operators: 19 new international retail chains approached the Russian market. Another dozen foreign chain companies plan their launch in Q3 2017 and they are currently preparing premises for their first stores and institutions.

Noteworthy is that 68% of operators entering the Russian market this year are operating in a high price segment (a year earlier they accounted for 46% of the total number). The following new brands shall be highlighted: the boutique of footwear and accessories Zlocci Store (Spain/Ukraine), Zanellato monobrand accessories store (Italy) – the first in Russia and the second in the world, the store of beach clothes MC2 Saint Barth opened in GUM, Palais des Thes – Parisian tea house (boutique and school of tea) and others. In total, more than 130 brands (about 37% of the total number) operating in the above average price category have come to Russia over the past 10 years.

Foreign brands that work in the discounter format, fix-price or in a low-price category approach the Russian market very rarely. As a rule, this niche is occupied by federal or regional retail companies, oriented to the Russian consumer, owing the optimal production and logistics base and having captured a significant market share.

Operators of clothing/footwear/underwear segment were far ahead (about 37% of the total number) in the structure of new brands. It is noteworthy that public

Volume of new international retailers opened in 2007–2017, pcs



Source: Knight Frank Research, 2017

International retailers opened its first store in Moscow in H1 2017

№	Brend	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	Café / 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 Britain	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	Zlocci Store	Spain / Ukraine	Apparel / Footwear / Lingerie	Premium
18	Truefitt&Hill	Great Britain	Services	Upper middle
19	Officine Gullo	Italy	Household goods	Upper middle

Source: Knight Frank Research, 2017

catering enjoyed the lead as early as 2013: about 38% of new brands were chain concepts of restaurants and cafes (the following institutions were launched during this period: Dippin Dots, Krispy Kreme, Lavazza Espression, Marugame, Nathan's Famous, Shake Shack).

Almost half of the new brands of H1 2017 (8 out of 19) are of Italian origin. A year earlier, Italian companies led the way (25%), followed by French, English, American brands (all by 13%) and operators from CIS countries.

Massive withdrawal of international operators from the market has not been observed in 2017: such players as Finlayson (household goods, Finland) and Takko Fashion (department store, Germany) announced the closure of their stores in Russia. As a comparison: 5 foreign brands left the market in 2016, 11 operators in 2015, and in 2014 – 12 foreign retail companies.

Commercial terms

There has been a sustainable rental rates growth in redesigned conceptual retail facilities. As a rule, this is expressed in the boost either of the upper limit of rental rates or turnover share paid by the tenant.


SEC on Kashirskoe highwaye

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)	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)	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	8–10
Apparels (400–1,000 sq m)	0–40,000	4–12
Footwear (300–500 sq m)	0–55,000	7–12
Entertainment (1,000–4,000 sq m)	0–8,000	9–15
Food court	45,000–150,000	12–15
Restaurant	10,000–25,000	10–12

* Commercial terms had been discussed at negotiation process

Source: Knight Frank Research, 2017

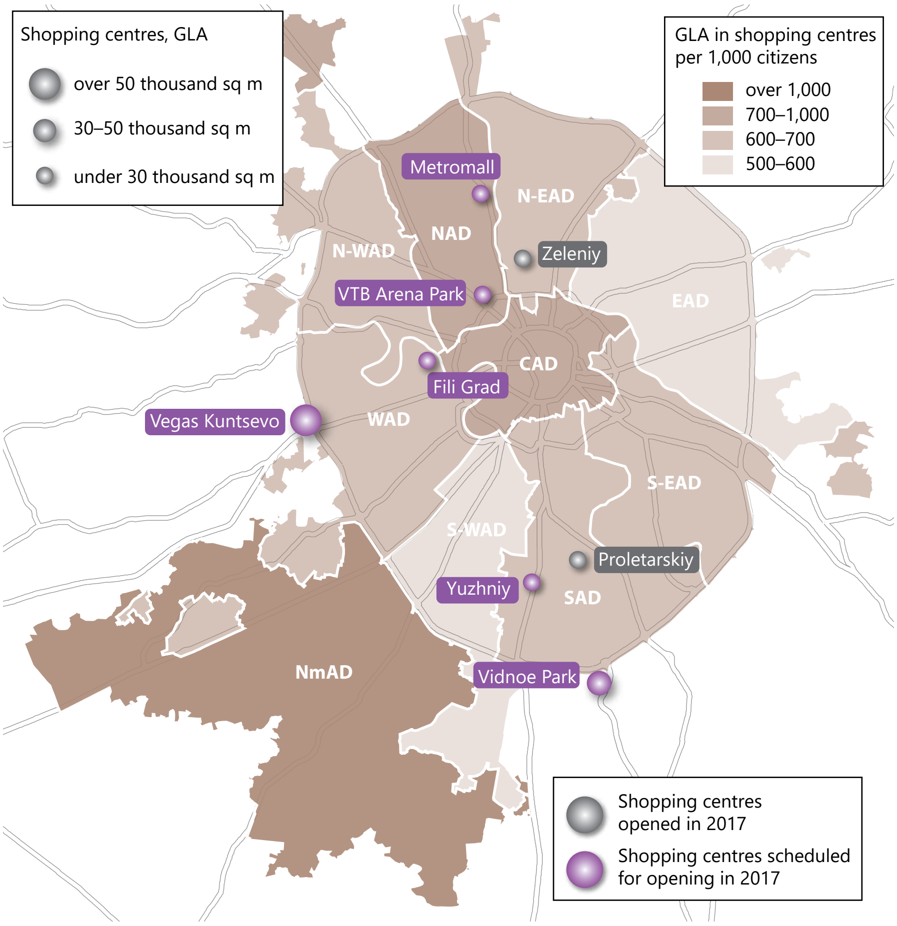
Forecast

Circa 250,000 sq m of retail space will be put into operation in Moscow in the nearest half of the year according to the plans announced by the developers of retail facilities. A significant part of the planned volume is accounted for by Vegas Kuntsevo, which will be opened already in Q3 2017. Yet the vacancy rate will continue its fall.

It should also be stated that the establishment of the Moscow market of shopping centres started more than 20 years ago and, according to the data for the current period many retail properties are outdated: about 30% of retail space in the Moscow market require renovation. The number of shopping centres in the capital requiring redevelopment will increase taking into account that from 5% to 20% of the retail space commissioned annually get out of date by the time of opening as well as due to the gradual change of the market conditions: their amount will rise to 40% by 2020. Thus, an increase in the capitalization of the facility and the maximum extension of its life cycle are stepping forward today in the sphere of development and redevelopment of shopping centres.

Moreover, one of the most important trends in the current stage of the market development is the gradual reduction in the number of projects announced by developers on the eve of 2008 or 2013 – in the periods preceding the stagnation processes of shopping centres development. Developers often came back to suspended projects when overcoming the crisis without making substantial changes to already developed concepts. Currently, the practice to restart works on the project without revising conceptual solutions has proved its inefficiency: the dynamic change in purchasing behavior, the emergence of technical know-hows, the internetization of the society, the development of the retail operators market and the emergence of new transport infrastructure projects – all these aspects cause an obligatory audit of conceptual solutions even in case of a semi-annual down time of a retail project.

Shopping centres opened in H1 2017. Largest shopping centres scheduled for opening in H2 2017



Source: Knight Frank Research, 2017

Largest shopping centres scheduled for opening in H2 2017

Object	Address	GBA, sq m	GLA, sq m
Vegas Kyntsevo	55 km from MKAD	231,250	113,400
Vidnoe Park	M-4 Don, 4 km from MKAD	105,000	45,000
Uzhniy	Bld 4, 9 Kirovogradskaya St	28,200	20,000
VTB Arena park	36, Leningradskiy Ave	30,000	17,180
Fili Grad	Bolshaya Filevskaya St / Beregovoy passage	15,000	12,000
Metromall	73 Dmitrovskoe Hwy	13,780	9,990

Source: Knight Frank Research, 2017

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