

RESEARCH



Q1 2019

RETAIL MARKET REPORT

Moscow



HIGHLIGHTS

The Moscow retail property market recorded no changes over Q1 2019. The opening of Salaris SEC was rescheduled for April 2019 from March 2019.

The vacancy rate keeps declining steadily. As of Q1 2019, the vacancy rate for the shopping centers of the Russian capital amounted to 7,0%, which is one percentage point less than in Q1 2018.

The new international retail operators show low activity. Thus, only five new brands entered the Russian market compared to seven brands a year ago.

The rent rates for shopping centers haven't changed much over Q1 2019 and remained in the same price range.



Evgenia Khakberdieva
Shopping Mall Leasing Director,
Knight Frank

«The first quarter of 2019, we observe a growth of the activity of developers on transport hubs projects and small shopping centers (the format up to 30 thousand m²), which confirms the trend that began to be formed last year. Also the number of requests from developers of functioning shopping centers increased for optimization of the current concept. Thus, we can talk about an essential increase in new projects that will deliver the Moscow market as early as next year».

RETAIL MARKET REPORT MOSCOW

Key indicators. Shopping centers*. Dynamics

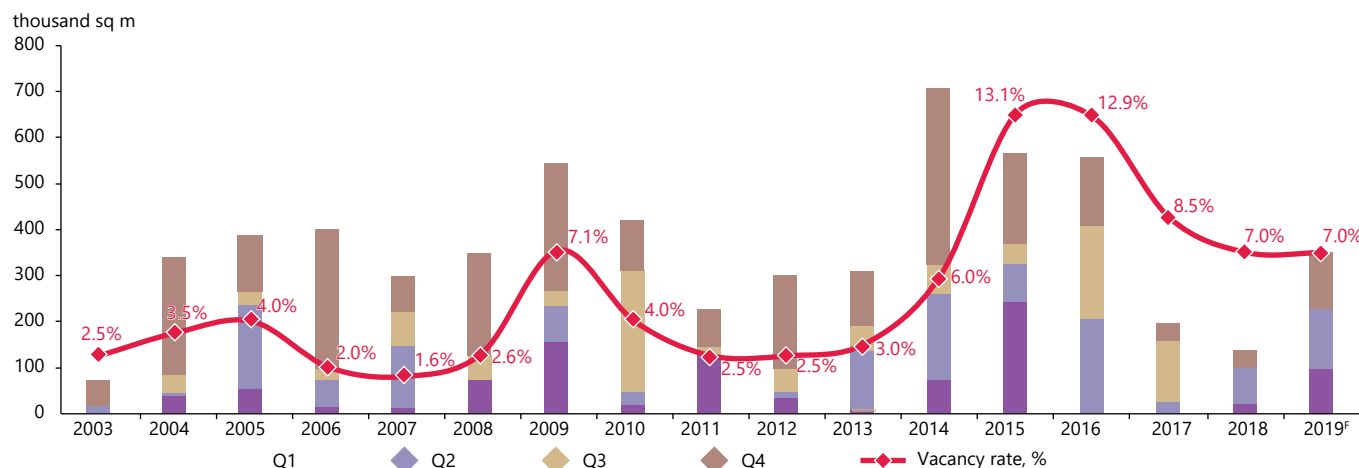
Shopping centers stock (GBA / GLA), million sq m	12.4 / 6.37
Opened in 2018 (GBA / GLA), thousand sq m	319.3 / 135.1
Scheduled for opening in 2019 (GBA / GLA), thousand sq m	≈877.6 / ≈348.7
Vacancy rate, %	7.0 (1.5 p. p. ▼)**
Fixed rent in Moscow shopping malls:	
Retail gallery tenants, rub / sq m/year	0–120,000
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 centers per 1,000 citizens, sq m	509.5

* 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 sq m, united by a common concept and unified management

** Change against the ending of 2018.

Source: Knight Frank, 2019

Volume of opened shopping centers and vacancy rate dynamics



Source: Knight Frank Research, 2019

Supply

As of Q1 2019, the total supply of quality retail properties of Moscow amounted to 12.4 million sq m (GLA – 6.37 million sq m). The opening of Salaris Mixed-Use Complex (GLA – 70,200 sq m) was rescheduled for April 2019 from March 2019.

All in all, seven shopping centers are expected to be delivered by the end of the year, three of them are part of transport hubs, namely Salaryevo (GLA – 70,200 sq m), Ryazanskaya (GLA – 10,900 sq m), and Rasskazovka (GLA – 18,600 sq m).

The supply is preliminary forecast to amount to about 365,000 sq m in GLA by the end of 2019. Among those malls announced to be opened the following are considered the largest ones: Ostrov Mechty SEC (GLA – 70,000 sq m), and Salaris SEC (GLA – 70,200 sq m).

Demand

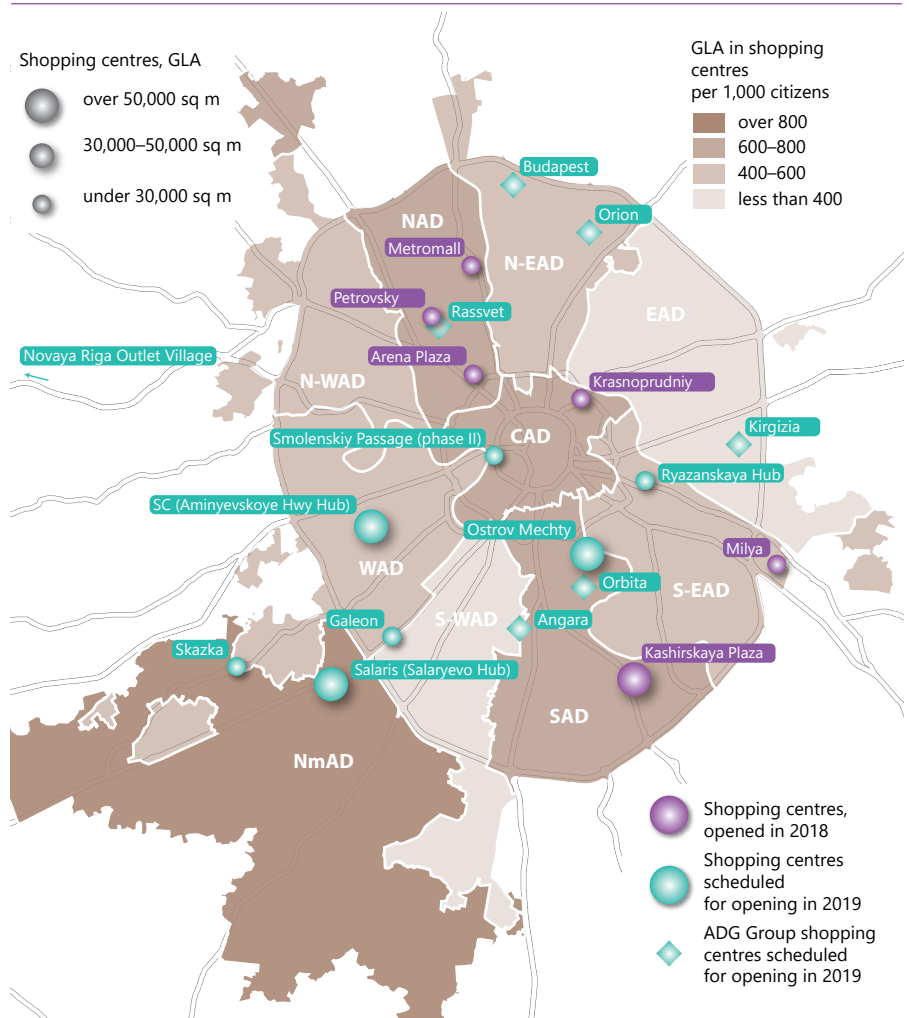
The continuing low rate of introduction of new supply and the volatility of the consumer confidence index contribute to the stabilization of the average market vacancy rate in the shopping centers of the capital. Thus, the vacancy rate of the shopping centers of Moscow remained flat over Q1 2019 as compared to Q4 2018 and amounted to 7%.

The vacancy rate of super regional shopping centers amounts to about 3% of property GLA. Meanwhile, the vacancy in major shopping centers opened more than two years ago amounts to 5.7%.

In total, there were 5 international retailers who came to the Russian market in Q1 2019, which is two operators less than a year ago (Q1 2018) and almost three times less than two years ago (Q1 2017). All newcomers are upper middle and premium class brands referring to Apparel / Footwear / Lingerie profile.

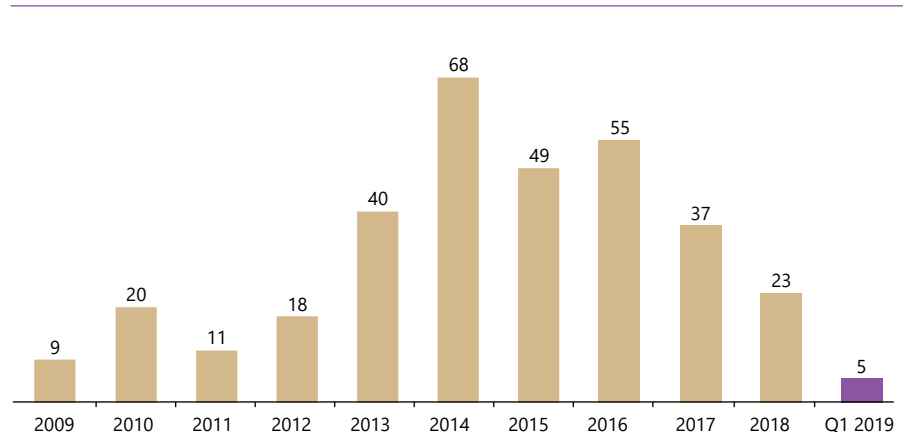
Technological processes in retail business are growing stronger, especially those related to closing in of online and offline, automation of routine processes, and personal data security. A major Internet company Lamoda opened its first offline store in Atrium SEC in March. Adidas opened its renewed flagman store at Krasnaya Presnya, which is equipped with new technology items and an opportunity for e-commerce:

Shopping centers opened in 2018. Largest shopping centers scheduled for opening in 2019



Source: Knight Frank Research, 2019

Volume of new international retailers opened in 2009-2019



Source: Knight Frank Research, 2019

International retailers opened its first store in Q1 2019

	Brand / Retail operator	Country of brand origin	Profile	Price category
1	DKNY Sport	USA	Apparel / Footwear / Lingerie	Upper middle
2	A Bathing Ape (Bape)	Japan	Apparel / Footwear / Lingerie	Upper middle
3	Rains	Dania	Apparel / Footwear / Lingerie	Upper middle
4	Giorgio Magnani	Italy	Apparel / Footwear / Lingerie	Premium
5	Cult Gaia	USA	Apparel / Footwear / Lingerie	Premium

Source: Knight Frank Research, 2019

the outlet must accumulate orders from 50 Moscow stores in order to move goods between these stores within 90 minutes.

In working with customers, the main theme of retailers will be gamification and a focus on lifestyle customers.

Commercial terms

The rent rates haven't changed significantly over Q1 2019 and remained in the same price range. The top-end rent rates can reach 150,000 rubles per sq m per year and account for the premises within the food court zones and those assigned for pop-up retail located in functioning shopping centers with high traffic.

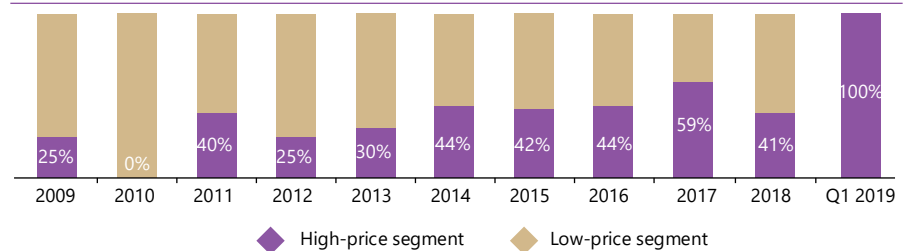
The bottom range rent rates are set for the premises of more than 2,000 sq m for anchor tenants.

Forecast

Against the backdrop of new retail property delivery, we expect the vacancy rate of shopping centers to grow a little up to 7% in 2019. However, the vacancy in stabilized shopping centers functioning for longer than two years is set to decline.

According to the plans that retail property developers announced, about 348,700 sq m of retail property are to be commissioned to the Moscow market. Among the properties scheduled for opening there are Ostrov Mechty SEC (GLA – 70,000 sq m), three shopping centers as part of transport hubs, namely Skazka SEC (GLA – 18,600 sq m), Salaris SEC (GLA – 70,200 sq m), and Ryazanskaya SC (GLA – 10,900 sq m), as well as a shopping center by Tashir at Aminyevskoye Highway (GLA – 68,000 sq m). Apart from that, two professional outlet centers Novaya Riga Outlet Village (GLA – 25,300 sq m) and The Outlet Novaya Riga (GLA – 14,500 sq m) are expected to be opened.

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



Source: Knight Frank Research, 2019

Rental rates in modern shopping centres

Profile		Range of basic rent rates, 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
Supermarket (1,000–2,000 sq m)		12,000–20,000	4–8
Home goods (<1,500 sq m)		6,000–10,000	8–12
Household appliances and electronics (1,200–1,800 sq m)		8,000–20,000	2.5–5.5
Sporting goods (1,200–1,800 sq m)		6,000–12,000	6–8
Goods for Children (1,200–2,000 sq m)		6,000–16,000	7–9
Retail gallery operators:			
Anchor	more than 1,000 sq m	0–12,000	4–12
Mini-anchors	700–1,000 sq m	0–14,000	6–12
Mini-anchors	500–700 sq m	0–16,000	6–12
	300–500 sq m	0–25,000	5–12
	150–300 sq m	0–18,000	6–14
	100–150 sq m	16,000–36,000	10–15
	50–100 sq m	25,000–80,000	12–15
	0–50 sq m	45,000–120,000	12–15
Leisure concepts:			
Entertainment centre (2,000–4,000 sq m)		4,000–8,000	10–14
Movie theater (2,500–5,000 sq m)		0–6,000	8–12
Food service:			
Food courts		45,000–150,000	8–15
Cafes		15,000–90,000	12–14
Restaurants		0–25,000	10–12

*Commercial terms subject to discussion during negotiations.
Rent rates include no VAT and operating expenses.

Source: Knight Frank Research, 2019

The first properties of the neighborhood shopping center chain by ADG Group were announced to be commissioned. Thirty-nine small shopping centers of 1,780 sq m through to 35,513 sq m in GLA are to be opened by the end of 2021.

Transport hub projects are being developed rapidly. The city authorities attract investors for some properties via tenders and work on some other ones on their own. As of today, investors entered 15 transport hub projects, most of which have a retail component. The construction of shopping centres was announced as part of Vykhino Transport Hub (GLA – 70,000 sq m), Seligerskaya Transport Hub (GBA – 145,000 sq m) and Park Pobedy Transport Hub (GBA – 237,000 sq m) by Tashir, Shchelkovskaya Transport Hub by Kiyevskaya Ploshchad, Botanicheskiy Sad Transport Hub (GLA – 27,000 sq m), Khovrino Transport Hub (GBA – 25,000 sq m). The mentioned objects are expected to be delivered within 2019–2022.

The new supply is forecast to grow within the next three years mainly owing to the retail premises within transport hubs.

Largest shopping centres scheduled for opening in 2019

Object	Address	GBA, sq m	GLA, sq m
Salaryevo Transport Interchange Hub - Salaris	Kiyevskoye Hwy, Salaryevo village	300,000	105,000
Ostrov Mechty	Nagatinskaya Poyma	280,000	70,000
Tashir (Transport Interchange Hub at Aminyevskoye Hwy)	Aminyevskoye Hwy, prop. 15	125,000	68,000
Novaya Riga Outlet Village	Novaya Riga, Pokrovskoye village, 68 Tsentralnaya St	38,000	25,280
Skazka (Rasskazovka Transport Interchange Hub)	Borovskoye Hwy / Korneya Chukovskogo St	29,000	18,608
Ryazanskaya (Ryazanskaya Transport Interchange Hub)	Nizhegorodskaya St	20,000	14,000
Smolenskiy Passage (phase II)	Smolenskaya Sq, prop. 7–9	14,800	13,000

Source: Knight Frank Research, 2019

Shopping centres by ADG Group

Object	Address	GBA, sq m	GLA, sq m
Angara	7 Chongarskiy Blvd	12,479	6,785
Budapest	14 Leskova St	19,103	9,736
Kirgizia	81 Zeleniy Ave	n/a	13,592
Orbita	27 Andropova Ave	n/a	5,958
Orion	26 Letchika Babushkina St	n/a	19,916
Rassvet	23 Zoyi i Aleksandra Kosmodemyanskikh St	n/a	6,460

Source: Knight Frank Research, 2019



RESEARCH

Olga Shirokova

Director, Russia & CIS

Olga.Shirokova@ru.knightfrank.com

RETAIL

Evgenia Khakberdieva

Shopping Mall Leasing Director

evgenia.khakberdieva@ru.knightfrank.com

+7 (495) 981 0000

KnightFrank.ru



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