

According to the results of Q1 2022, one shopping centre was opened in Moscow – SC Discovery (GLA 17,500 sq m)

~160 retail companies (including online stores) announced the suspension of their commercial and investment activities, including supplies to Russia in Q1 2022



MOSCOW RETAIL MARKET REPORT

Q1 2022

knightfrank.com/research





Evgenia Khakberdieva
Regional Director
of Retail Department Knight Frank

«All retail real estate players had high hopes for 2022, as the market was ready for active development and recovery. However, the February events dramatically changed the plans: the rush demand against the backdrop of consumer panic in early March gave way to a fall in the second half of March. Given the challenging foreign policy environment, disrupted supply chains and inventory issues that will affect the retail real estate development and the well-being of the operators themselves, we expect key market indicators to adjust already in Q2 2022.»

Key indicators*

Shopping centres stock (GBA / GLA), million sq m	14.26/7.22
Opened in 2021 (GBA / GLA), million sq m	38.5/17.5
Scheduled for opening in 2022 (GBA / GLA), thousand sq m	≈358.2/≈239.1
Vacancy rate, %	13.3% (+1.0 p. p.)**
Fixed rental rent***:	
Retail gallery tenants, RUB/ sq m/year	0–170,000
Anchor tenants, RUB/ sq m/year	3,000–45,000
Operating expenses:	
Retail gallery tenants, RUB/ sq m/year	6,000–15,000
Anchor tenants, RUB/ sq m/year	1,500–3,000
GLA in quality shopping centres per 1,000 citizens	571

* 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 Q1 2021

*** The upper limits of rental rates refer to the most successful and high-quality shopping centres in Moscow

Source: Knight Frank Research, 2022

Key conclusions

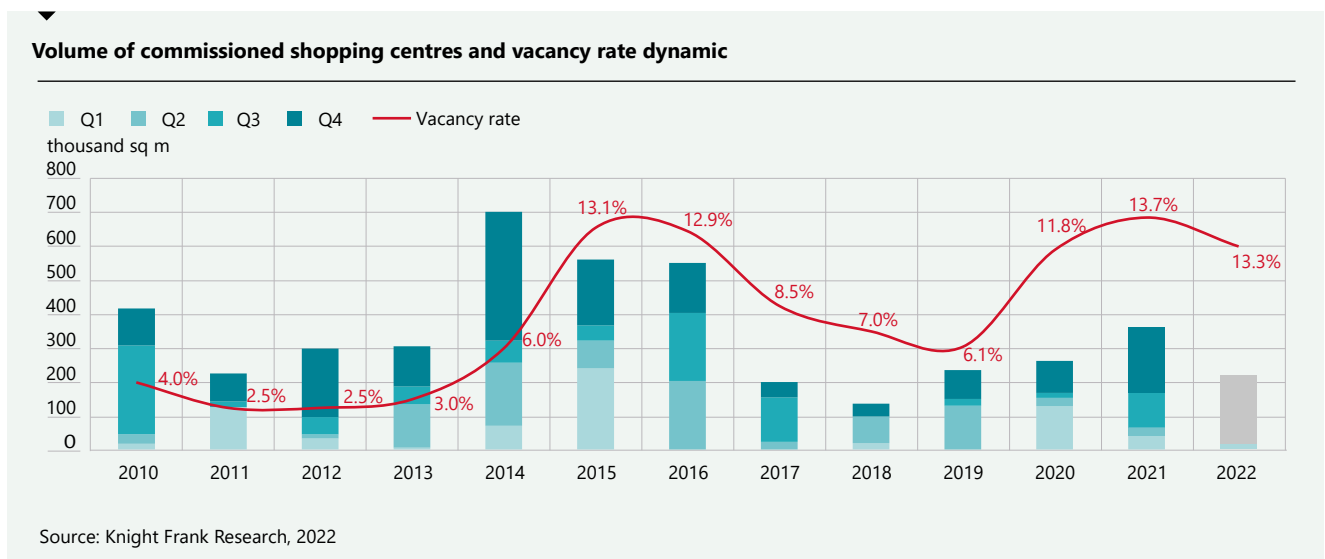
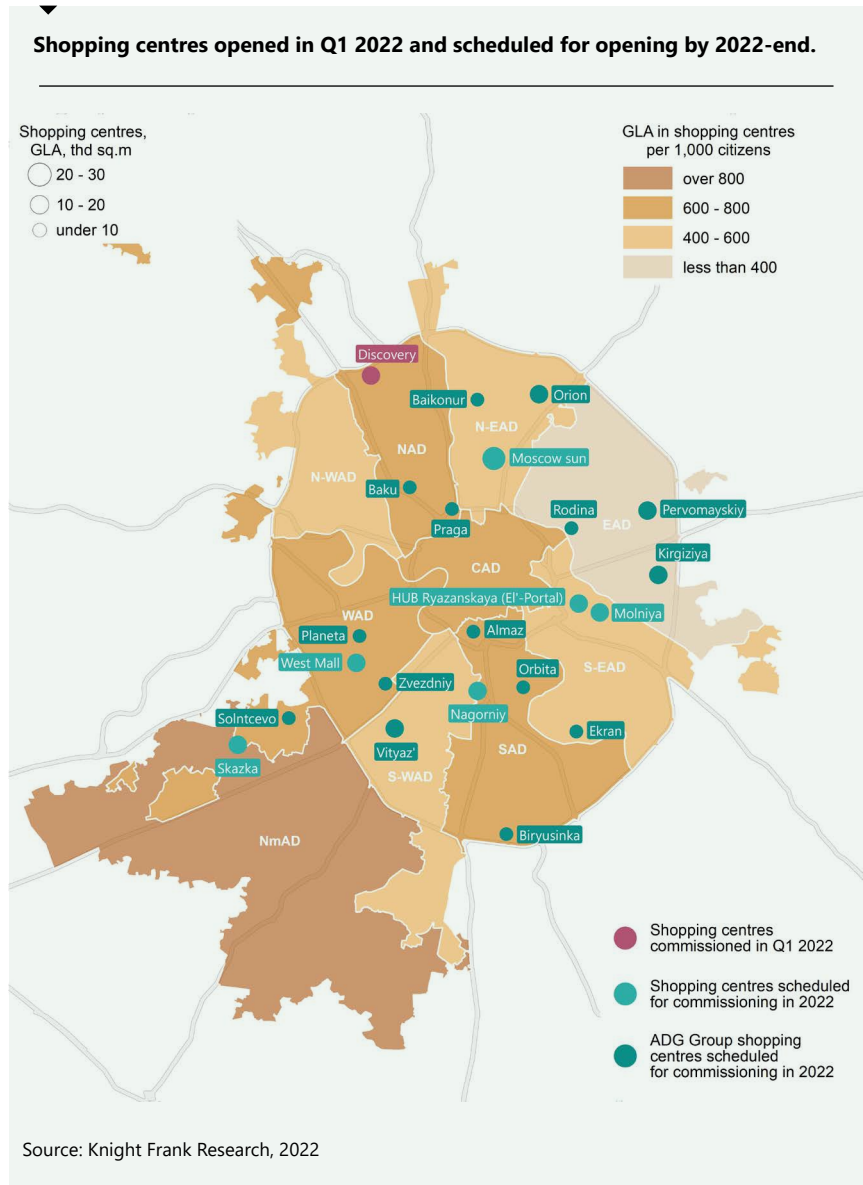
- ♦ According to the results of Q1 2022, one shopping centre was opened in Moscow – SC Discovery (GLA 17,500 sq m).
- ♦ The new supply demonstrated negative dynamics compared to Q1 2021 (-57.8%).
- ♦ The volume of new completions amounting to GLA 239,100 sq m is expected in 2022 and will be of neighbourhood format.
- ♦ The quarter results show a decrease in the vacancy rate in shopping centres up to 13.3% (0.4 p. p. lower than in Q4 2021, but 1 p. p. higher than in Q1 2021).
- ♦ Reduced the activity of new international retail operators: only one new brand entered the Russian market, which is 50% lower y-o-y.
- ♦ ~160 retail companies (including online stores) announced the suspension of their commercial and investment activities, including supplies to Russia in Q1 2022.

Supply

Two shopping centers (GLA 27,000 sq m) received the commissioning permit, and two more shopping centres completed their construction (GLA 25,600 sq m), but only one shopping facility (SC Discovery) was opened (GLA 17,500 sq m) in Q1 2022. Other shopping centres postponed the opening dates. Taking into account the new commissioning volume, the figure of the availability of high-quality retail space for Moscow residents has changed slightly and is 571 sq m per 1,000 people.

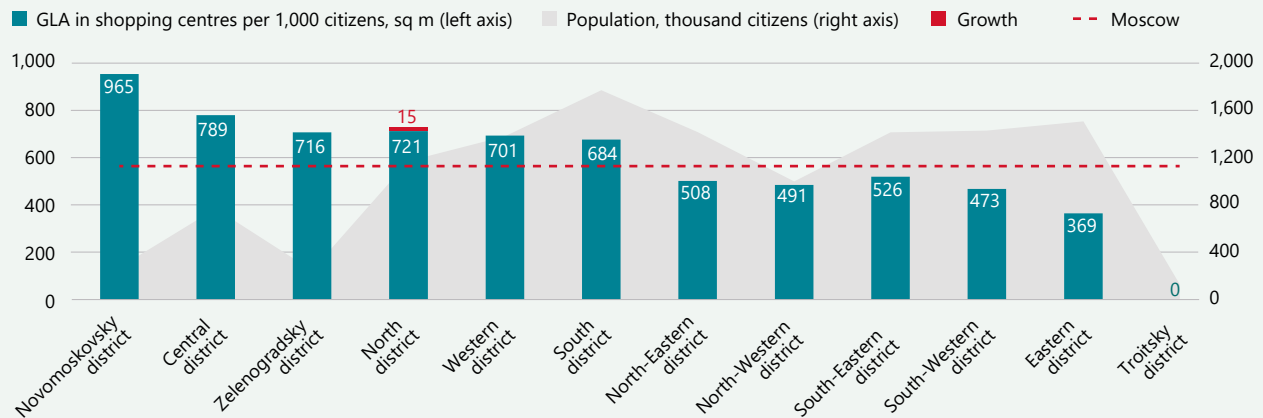
Vacancy Rate

According to the results of Q1 2022, the vacancy rate in Moscow shopping centres increased by 1 p. p. (compared to Q1 2021) and amounted to 13.3%. As compared to the previous quarter, the indicator decreased by an average of 0.4 p. p. due to high demand of tenants for new shopping malls opened in 2020–2021, active development of retailers* at the beginning of the year (until the end of February), and the low supply of new space: at the end of Q1 2022, only one shopping centre (SC Discovery) was opened (GLA 17,500 sq m) as part of the Discovery Park Residential Complex. However, the vacancy rate may face adjustment from the Q2 2022 due to the closure of international brands who left the Russian market and the reduction in the number of stores of domestic companies.



* Excluding temporarily closed stores

GLA in quality shopping centres per 1,000 citizens in the administrative districts of Moscow, sq m



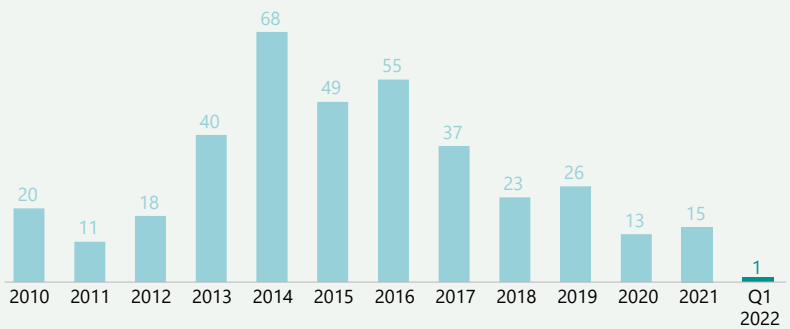
Source: Knight Frank Research, 2022

The stores of local brands may be optimized with a sharp reduction in inventories on the back of disrupted logistics chains and the need to find alternative suppliers to replace those who suspended their operation in Russia. It is worth noting that the temporarily closed but returned international players are highly likely to consider plans to optimize their networks.

Brands

In Q1 2022, one brand has entered the Russian market (Vilhelm perfumery mono-boutique in a street-retail format), while there were two brands for the same period in 2021. The expansion policy of international brands is strongly influenced by the political and economic situation, which affects both the development of players and, as a result, the expansion: since the beginning of March, ~160 foreign retail companies have declared the termination of business activities in Russia, but retailers who have announced a temporary suspension of work are in no hurry to terminate lease agreements with shopping centres. The final termination of activities in Russia had been announced by six players to date: the Finnish grocery chain Prisma, the F&B operator Hesburger, as well as the Finnish chain FCMG Paulig (including one offline Paulig Café&Store in a street-retail format), the Ukrainian F&B

Dynamics of international operators entering the Russian market



Source: Knight Frank Research, 2022

International operators that entered the Russian market in Q1 2022

	Brand / Retail operator	Country of brand origin	Profile	Price category
1	Vilhelm perfumery	USA	Perfume and cosmetics	Upper middle

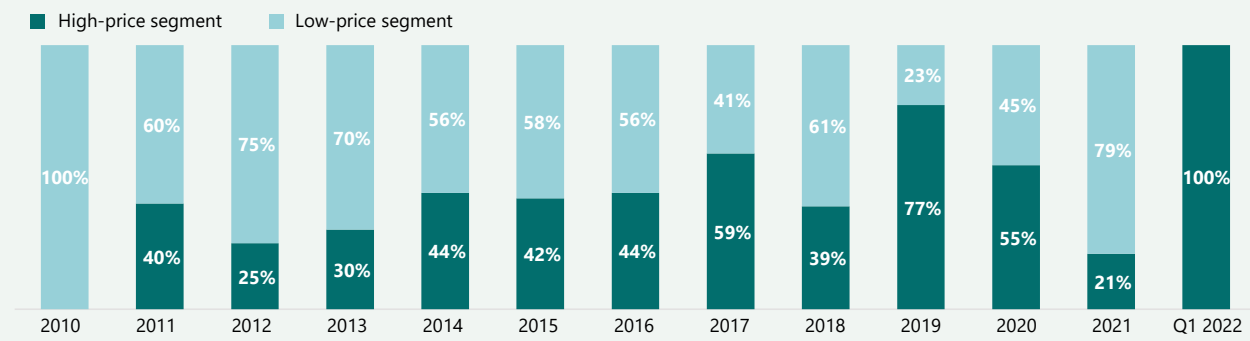
Source: Knight Frank Research, 2022

network Ninja Sushi, the Danish chain of household goods Jysk, and the Asian chain of health and beauty stores Watsons.

The number of local brands has grown rapidly in recent years, and many of them rent their own stores in Moscow and Russian regions. There are all chances for the Russian fashion industry to gain a

foothold in the market, but it is hardly possible to quickly replace all tenants who suspend their activities or leave the market. The Russian designers will need about two to three years to increase production volumes, including to find alternative logistics chains and build relationships with new suppliers of materials and accessories.

The structure of brands entered the Russian market, by price segment



Source: Knight Frank Research, 2022

Commercial Terms

The level of rental rates for retail premises in shopping centres remained within the same price range relative to the previous quarter in Q1 2022.

Compared to the same period last year, the rental rates increased in some cases for anchor and gallery tenants with a space of up to 50 sq m and 500–700 sq m in the most successful and popular shopping centres of Moscow. Maximum base rental rates also fall on food court spaces and mini-anchors (up to 50 sq m) in existing facilities with high traffic and can reach 120,000–170,000 RUB / sq m/ year. Minimum rental rates are set for premises exceeding 2,000 sq m for anchor tenants.

It is worth noting that the ruble weakening, supply disruptions, mass closures of foreign retailers, and sanctions have their imprint on the financial performance of the most retailers and shopping centres in addition to the direct influence of the political factor. Given the foreign policy and economic background, commercial terms may be revised from the Q2 2022.

Terms of lease in Moscow shopping centres (until March, 2022)

Tenant profile	Range of base rental rates, RUB/ sq m/ year*		% of turnover
	General indicator	Neighborhood shopping centres (less than 10 years)	
Supermarket (1,000–2,000 sq m)	8,000–18,000	15,000–22,000,	4–6
Supermarket (450–900 sq m)	18,000–35,000	18,000–35,000	4–7
Household goods (<1,500 sq m)	0–10,000	8,000–12,000	6–8
Household appliances and electronics (1,200–1,800 sq m)	6,000–15,000	6,000–15,000	2,5–5
Sports goods (1,200–1,800 sq m)	6,000–12,000	6,000–12,000	5–8
Children’s goods (1,200–2,000 sq m)	6,000–12,000	6,000–12,000	4–8
Operators of the shopping gallery**:			
Anchors > 1,000 sq m	0–12,000	6,000–18,000	4–10
Mini-anchors 700–1,000 sq m	0–14,000	8,000–18,000	6–10
Mini-anchors 500–700 sq m	0–45,000	8,000–18,000	6–10
300–500 sq m	0–25,000	8,000–12,000	5–12
150–300 sq m	8,000–18,000	8,000–12,000	6–14
100–150 sq m	16,000–36,000	10,000–20,000	10–14
50–100 sq m	25,000–80,000	15,000–25,000	12–14
0–50 sq m	45,000–170,000	20,000–120,000,	10–14
Leisure concepts:			
Entertainment centers (2,000–4,000 sq. m)	4,000–8,000	4,000–6,000	10–15
Cinemas (2,500–5,000 sq m)	0–6,000	0–4,000	8–10
Public catering:			
Food-courts	45,000–120,000	28,000–50,000	10–15
Cafes	15,000–90,000	15,000–30,000	12–14
Restaurants	0–25,000	15,000–20,000	10–12

* Negotiable commercial terms

** Commercial terms subject to discussion during negotiations. Rental rates exclude VAT and operating expenses

Source: Knight Frank Research, 2022

Trends

By the 12th week of 2022, the traffic decreased by an average of 6% compared to the same period in 2021 and by 22% as compared to 2019. However, within the first two weeks of 2022, almost all of the Moscow shopping centres reached the values of 2019. Most of the shopping centres announced for commissioning in 2022 will adjust the opening dates as the bringing new facilities with a high vacancy rate to the market is highly possible: on average, the figure in new open shopping centres was 23.2% by the end of 2021, while the indicator may grow to 30%-35% in today's realities.

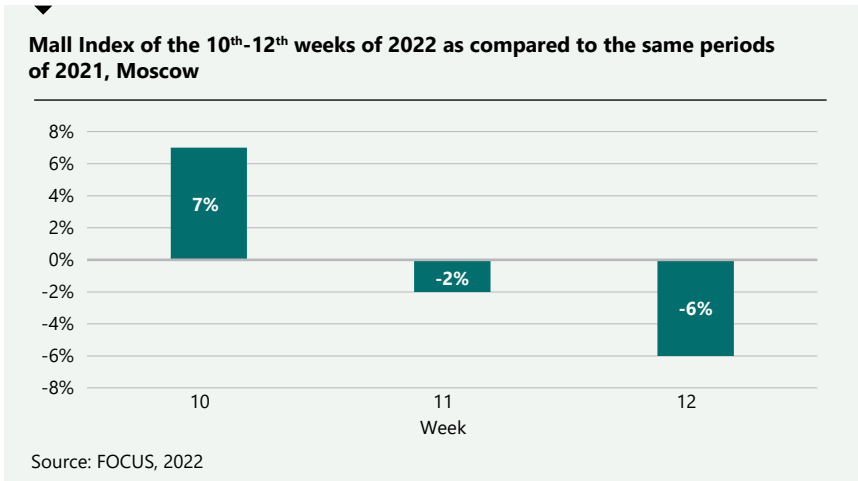
Forecast

According to the announced plans of developers, the new commissioning in Moscow will amount to GLA 239,100 sq m of retail space by the end of 2022. In this context, the new supply of shopping centres is forecasted to lose 33.5% y-o-y. The commissioning dates of many new shopping facilities announced for opening in 2022 are likely to be changed.

If all the shopping facilities announced for commissioning are opened in 2022, the largest one will be MUC Moscow Sun (GLA 26,300 sq m), SC Orion (GLA 19,900 sq m), SC Skazka (GLA 18,500 sq m), SC Discovery (GLA 17,000 sq m).

The new supply of the capital in the coming years will be formed, among other things, by retail space of neighbourhood format. Small-scale shopping centres with modern public spaces for everyday leisure and work perfectly fit into the new reality. Such shopping centres do not make visitors to waste much time, they attract attention of consumers with compactness, and the tenant mix is increasingly focused on the functionality and price segmentation of the target group, rather than on a brand. Community centres are in demand and necessary for everyday projects with a clear target group of the population, but they are also ideal for conceptual experiments, such as educational lectures, sports clubs, fashion laboratories, gastronomic spaces, and much more.

Already today, half of the shopping facilities under construction in Moscow with a scheduled commissioning in 2022



are those of neighbourhood formats. The number of high-quality small-scale centers (GLA <30,000 sq m) planned for commissioning during the year in Moscow increased from 9 to 22 over the year, while the average area of all declared shopping centres in 2022 decreased to 10,900 sq m, which

remains in the range of spaces specific to a neighbourhood shopping centre. For comparison: during the record-breaking years of commissioning (2014–2016), the average area of a shopping facility ranged from 36,500 sq m to 57,500 sq m, which is 71.2% and 81.7% higher than the current figures.

Retail trends:

- Increased number of shopping centres of neighbourhood formats.** Expanded supply of regional shopping centres is a response to retail trends, i.e. a changed model of consumption and consumer behavior, mobility of city dwellers. These are not just shopping malls anymore – they are infrastructure facilities ideal for conceptual experiments, such as educational lecture halls, sports clubs, fashion laboratories, gastronomic spaces, and much more.
- Pivot to searching of new partners.** On the back of suspended operation of many international companies, Russian shopping centres and department stores are interested in expanding the range and opening the stores of new brands from friendly countries.
- Restructuring of logistics chains.** Given the unstable economic situation, supply chains are disrupted, which leads to a shortage of various goods/raw materials and a price growth. In this regard, companies review the structure of their supply chain.
- Currency outcome.** On the back of unstable exchange rate, market players and the government has begun to consider a 100% transition to ruble contracts to avoid currency risks.

Shopping centres scheduled for opening in 2022

Name	Address	GBA	GLA
Moscow Sun	Mira Ave., 119	35,000	26,250
Skazka (Rasskazovka Hub)	Borovskoye Hwy./Korneya Chukovskogo St.	28,950	18,500
Discovery (Khovrino Hub)	Dybenko St., 7	25,000	17,500
West Mall	B. Ochakovskaya St., 1, bldg. 2	28,500	15,830
Molniya	Ryazanskiy Ave. (RC Kvartaly 21, 19)	18,450	14,020
El-Portal (Ryazanskaya Hub)	Nizhegorodskaya St.	20,000	14,000
Nagorny*	Elektrolitnyy Dr., 16A	25,200	12,000

* Completed construction

Source: Knight Frank Research, 2022

ADG Group facilities scheduled for opening in 2022

Name	Address	GBA	GLA
Orion	Letchika Babushkina St., 26	36,361	19,916
Kirgiziya*	Zelenyy Ave, 81	26,147	13,592
Vityaz'	Miklukho-Maklaya St., 27a	16,650	12,197
Pervomayskiy	Pervomayskaya St., 93/20	16,045	10,933
Baikonur**	Dekabristov St., 17	13,454	9,541
Baku	Usiyevicha St., 12	12,763	9,505
Praga	Nizhnyaya Maslovka St., 10	n/a	6,289
Ekran	Novocherkasskiy Blv., 21a	8,863	6,167
Orbita	Andropova Ave., 27	9,066	5,958
Zvezdnyy	Vernadskogo Ave, 14	6,343	5,288
Planeta	Nezhinskaya St., 11	7,036	4 831
Solntsevo	Bogdanova St., 19	7 274	4,655
Biryusinka	Bulatnikovskaya St., 9a	7,032	4,644
Almaz	Shabolovka St., 56	5,591	3 878
Rodina	Semenovskaya Sq., 5	4,508	3,575
Алмаз	Шаболовка ул., д. 56	5 591	3 878
Родина	Семеновская пл., д. 5	4 508	3 575

* Completed construction

** Comissioning permit obtained

Source: Knight Frank Research, 2022



© Knight Frank LLP 2022 – 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.

RESEARCH

Olga Shirokova
Regional Director, Russia & CIS
OShirokova@kf.expert

RETAIL

Evgenia Khakberdieva
Regional Director
evgenia.khakberdieva@ru.knightfrank.com