RESEARCH

Q3 2017

RETAIL MARKET REPORT

Moscow

HIGHLIGHTS

153,900 sq m were commissioned within Q1–Q3 2017 – rock bottom figure for the corresponding period from 2012.

Amid the reduction of new delivery, tenants are dynamically occupying vacant premises in shopping centres: the final vacancy rate, which was 12.9% at the beginning of 2017, has not exceeded 8.5% for the current period.

28 new international retail players approached the Russian market in Q1–Q3 2017. That is 35% less the number of new foreign brands at the Russian market against the same period in 2016.

About a dozen of chain international companies are planning to launch their projects in the Russian market, thus the level of new brands put on the market shall be equal to low performing 2013.

RETAIL MARKET REPORT MOSCOW

Alexander Obukhovsky
Retail Director, Knight Frank Russia

"No shocks were detected in Q3 2017: the reduced new supply level boosted the take-up dynamics of vacant premises. The high demand by tenants and the declining key interest rate inspired banks to invest more dynamically and allowed developers to unfreeze projects. We expect the revitalization of the development market at the end of 2018–2019"

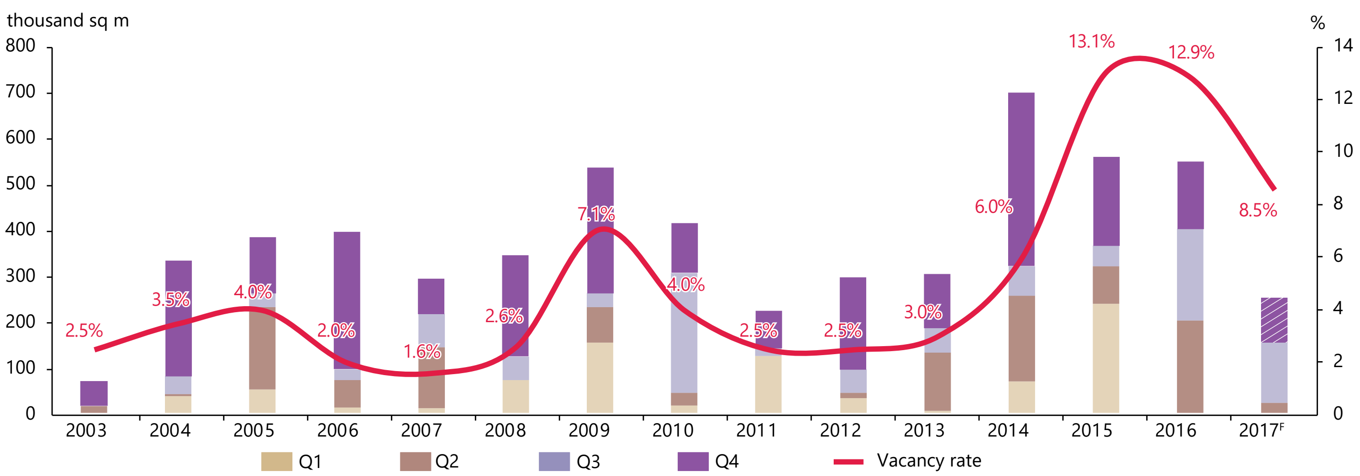
Key indicators. Shopping centres*. Dynamics

Shopping centres stock (GBA / GLA), milliom sq m	11.9/6.17
Opened in Q3 2017 (GBA / GLA), thousand sq m	334.7/153.9
Scheduled for opening in Q4 2017 (GBA / GLA), thousand sq m	≈228/≈123
Vacancy rate, %	8.5 (4.4 p. p. ▼)**
Fixed rental rate:	
Retail gallery tenants, rub./sq m/year	0–55,000
Anchor tenants, rub./sq m/year	3,000–18,000
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	498.5

* 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 total area of more than 5,000 sq m
** Compared to the beginning of 2017

Source: Knight Frank Research, 2017

Volume of opened shopping centres and vacancy rate dynamic



Source: Knight Frank Research, 2017

Shopping centres opened in 2017

Object	Address	GBA, sq m	GLA, sq m
Q1			
Proletarskiy	24 Proletarsky Ave	23,700	15,450
Zeleniy	10 Ogorodniy passage	9,150	7,000
Q2			
–	–	–	–
Q3			
Vegas Kuntsevo	56 km of MKAD	286,870	119,470
Fili Grad	Bld 26, 5 Beregovoy passage	15,000	12,000

Source: Knight Frank Research, 2017

Supply

Two retail properties were put into operation in the Moscow market in Q3 2017 – Fili Grad Shopping Centre, part of the same name residential complex (GLA – 12,000 sq m), as well as Vegas Kuntsevo Shopping and Entertainment Centre with 119,500 sq m of leasable area (GBA – almost 287,000 sq m). It was two and a half years ago when such a large-scale shopping centre was opened in Moscow, when Columbus Shopping and Entertainment Centre (GLA – 140,000 sq m) was launched in Q1 2015.

153,900 sq m were commissioned within Q1–Q3 2017 – rock bottom figure for the corresponding period from 2012.

Demand

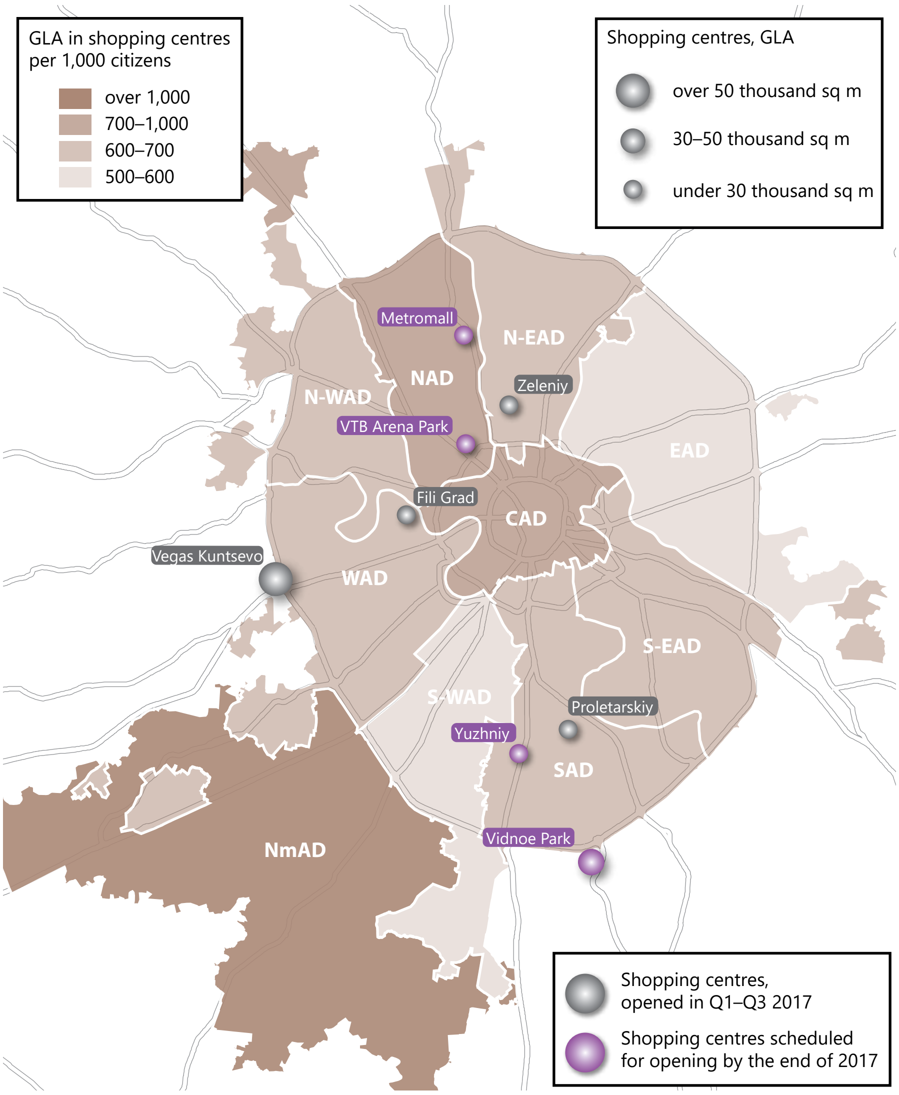
Amid the reduction of new delivery, tenants are dynamically occupying vacant premises in shopping centres: the final vacancy rate, which was 12.9% at the end of 2016, has not exceeded 8.5% for the current period.

The largest volume of unoccupied premises was recorded in properties entering the market in 2016: at present, every fourth square meter 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 projects is still underway.

However, in our projections, the vacancy rate in the conceptual facilities put into operation over the past few years will go down affected by the supply reduction of new quality properties in the Moscow market.

8 new international retail operators entered the Russian market in Q3, which nearly corresponded to the same period last

Shopping centres opened in Q1 – Q3 2017. Largest shopping centres scheduled for opening in Q4 2017



Source: Knight Frank Research, 2017

year when 10 players opened their stores and institutions. Six retailers started their development from the capital, two brands – Tucano Coffee (Moldova) and Mimioriki (Kazakhstan) – began in regional markets.

Therefore, 28 new international retail players approached the Russian market for three quarters of 2017, that is 35% less the number of new foreign brands at the Russian market against the same period of 2016, when 43 retailers launched their projects. Another dozen of international chain companies plan their launch in the Russian market according to the announced plans, thus the level of new brands put on the market shall be equal to low performing 2013.

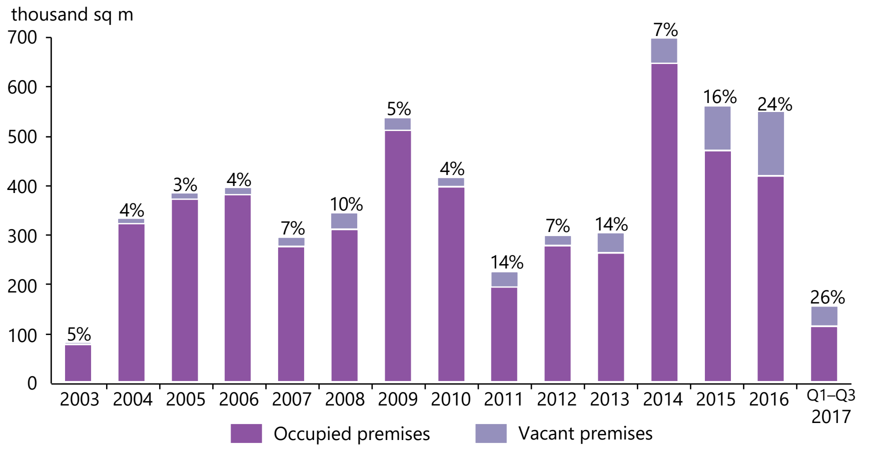
Remarkably, this year 64% of operators entering the Russian market have been marketed in a high price segment – a year earlier they accounted for 44% of the total amount. The newcomers are boutique of underwear Hanro (Switzerland); single-brand boutique of men's shoes Barracuda (the second brand of FABI, opened in GUM); Il Gufo, the first in Russia single-brand children's clothing store of premium segment (Petrovsky Passage Shopping Centre); as well as the Italian brand of bags and accessories Mandarina Duck, returned to the Russian market, its flagship boutique opened in Metropolis Shopping and Entertainment Centre.

The profile of new brands in Q3 coincided with the trends of previous quarters: almost half (3 out of 8) 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 by the number of first stores in Russia in 9 months of 2017 (their share in the total number of new operators was 37.5%). This figure was 48% over the same period in 2016.

37% of the international brands approaching the Russian market within 9 months of 2017 were of Italian origin, thus supporting 2016 trend. However, an interesting tendency is developing this year – there appear players from Kazakhstan and Moldova: the brands of these countries seldom get into the lists of newcomers to the Russian market.

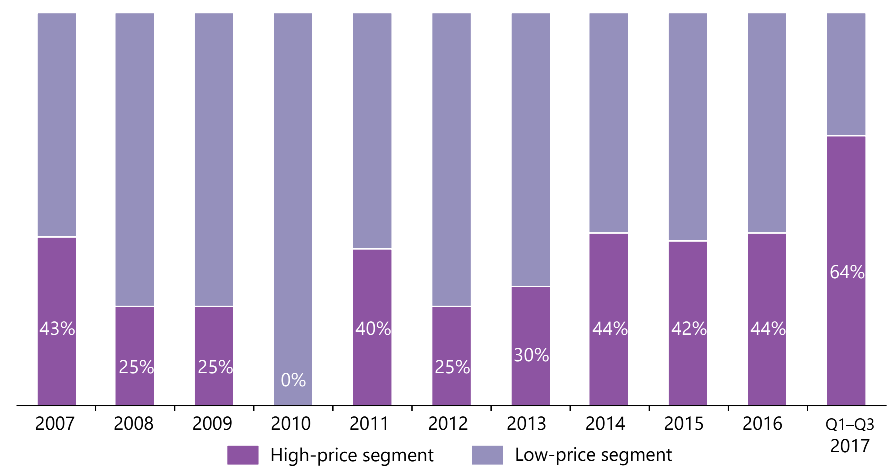
Not a single international brand was phased down in Russia in Q3 2017. International operators did not withdraw from the market massively over the past 9 months of 2017: only the following players announced the closure of their stores in Russia - Finlayson (household goods, Finland) and Takko Fashion (department store, Germany). For comparison: 5 foreign brands were knocked out of the market in 2016, 11 operators in 2015 and 12 foreign retail companies in 2014.

Vacancy rate in retail facilities opened in different years



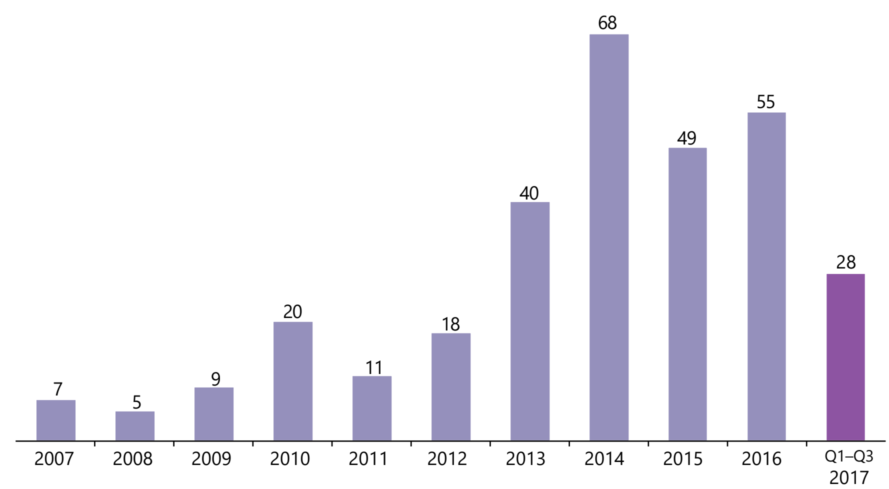
Source: Knight Frank Research, 2017

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



Source: Knight Frank Research, 2017

Number of new international retailers opened in 2007–2017



Source: Knight Frank Research, 2017


SEC in hub Salaryevo

International retailers opened its first store in Moscow in Q1-Q3 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	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	Sporting goods	Upper middle
20	Plein Sport	Germany	Sporting goods	Premium
21	Mandarina Duck	Italy	Accessories	Upper middle
22	Tucano Coffee	Moldova	Café / 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

Source: Knight Frank Research, 2017

Rental rates in modern shopping centres

Profile	Fixed rental rate*,	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

Largest shopping centres scheduled for opening in Q4 2017

Name	Address	GBA, sq m	GLA, sq m
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
Metromall	73 Dmitrovskoe Hwy	13,780	9,990

Source: Knight Frank Research, 2017

Commercial terms

There has been a steady rental rate growth in redeveloped conceptual retail facilities. As a rule, this is expressed in the rise of either upper limit of the rental range or the turnover share, paid by the tenant.

Forecast

Circa 123,000 sqm of retail space are projected to be delivered by the retail developers in the capital in Q4 2017. One third of the planned volume will be located in Vidnoye Park Shopping and Entertainment Centre, despite this fact the vacancy rate will further decline according to our projections. Moreover, the reduced new supply level boosted the take-up dynamics of vacant premises. The high demand by tenants and the declining key interest rate inspired banks to invest more dynamically and allowed developers to unfreeze projects. Accordingly positive economic dynamics we expect the revitalization of the development market at the end of 2018–2019.

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