



Q3 2018
**RETAIL MARKET
REPORT**
Moscow

HIGHLIGHTS

No new shopping malls were opened in Moscow in Q3 2018.

The vacancy rate keeps steadily reducing. It has dropped by 1.4% since the beginning of the year to reach 7.1%.

New international retail operators demonstrate a low-level activity: 17 new brands have come to the Russian market since the beginning of 2018, which is 1.5 times less than last year's figure.

The rental rates for retail spaces in shopping centers of the capital have not changed much and generally remain at the same level.

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Evgenia Khakberdieva
Shopping Mall Leasing Director,
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"Normally, the third quarter of a year is considered a low business season due to the summer vacations and annual leaves so it's not too busy in terms of the market activity. The projects scheduled to be opened as long ago as H1 2018 were rescheduled for the end of the year, so no new properties came to the market in Q3. However, the chain tenants maintain the trend of expanding and opening new stores. And the good news is that the foreign exchange fluctuations that happened in the current quarter did not affect the development plans of retailers".

Key indicators. Shopping centres*. Dynamics

Stock (GBA / GLA), million sq m	12.3/6.3
Scheduled for opening in 2018 (GBA / GLA), thousand sq m	254.5/97.5
Vacancy rate, %	7.1 (1.4 p. p. ▼)**
Fixed rent:	
Retail gallery tenants***, rub./ sq m/year	0–120,000
Anchor tenants, rub./ sq m/year	0–23,000
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	501.4

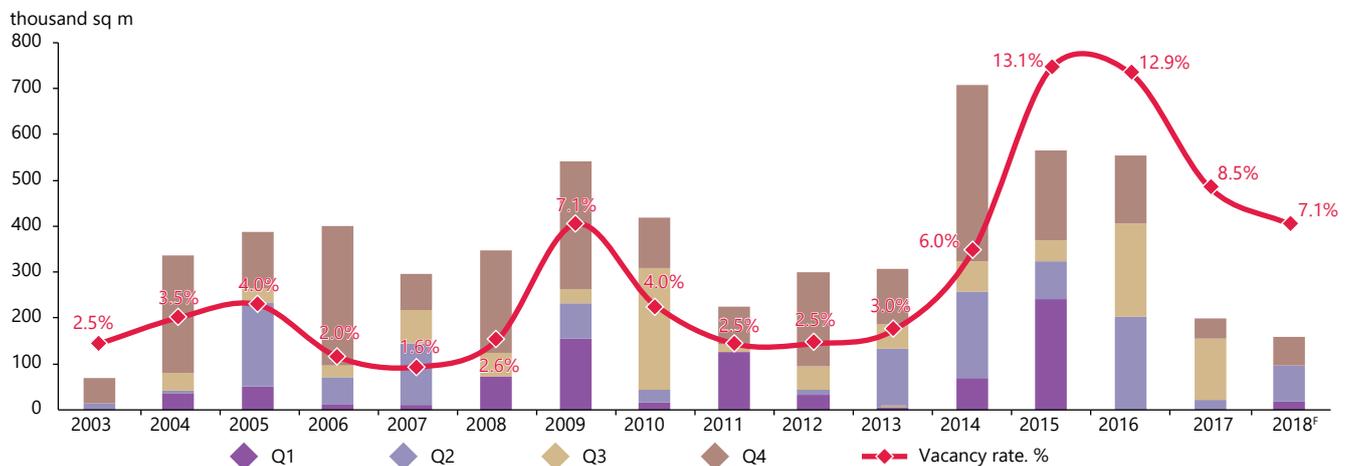
* The table refers only to high quality, professional retail properties. A shopping centre is a standalone building or a group of buildings sharing the same architectural style, concept and under common management, with a total area of more than 5,000 sq m

** Compared to Q4 2017

*** Lease rates indicated without VAT and operating expenses

Source: Knight Frank Research, 2018

Volume of opened shopping centres and vacancy rate dynamics



Source: Knight Frank Research, 2018

Supply

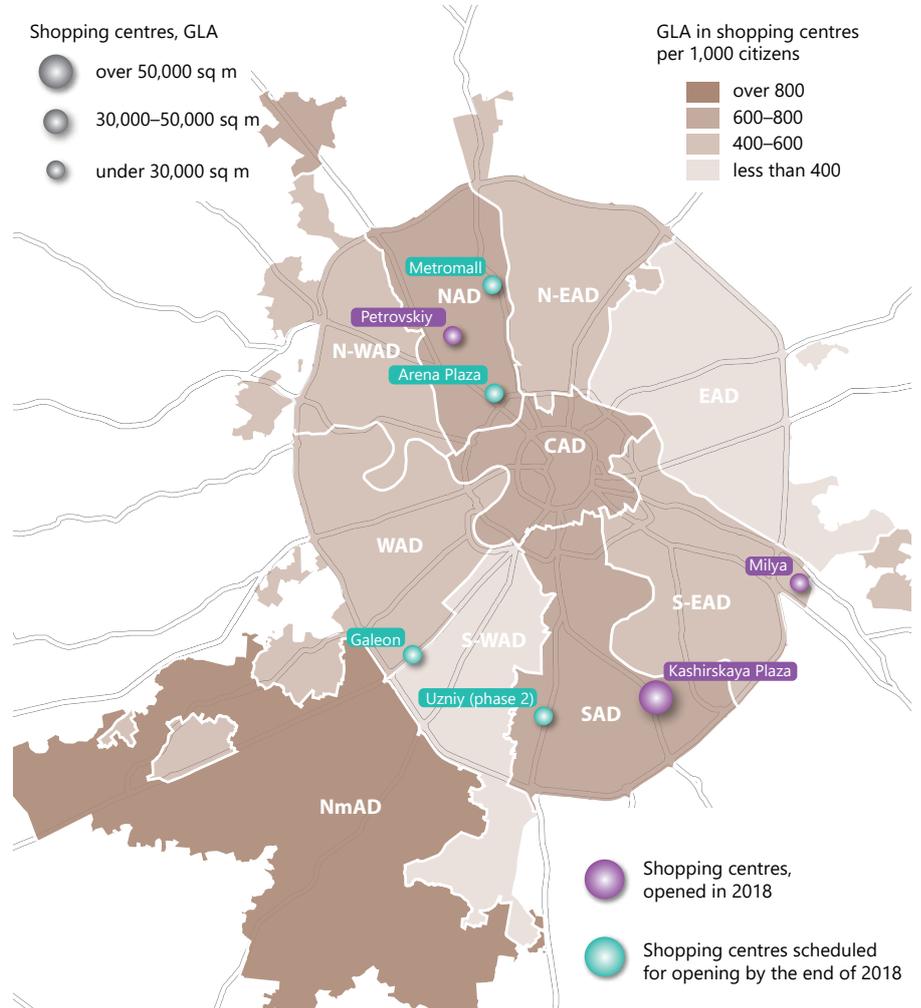
As of Q3 2018, the total stock of retail spaces in Moscow has not changed from that of H1 2018. There have been no new shopping centers opened over the last three months.

Thus, the opening dates for Yuzhny Shopping Center (phase II) and Metromall Shopping Center were rescheduled for October 2018 from September 2018. Apart from that, it is worth mentioning that five more shopping centers were rescheduled to be opened in 2019 instead of the beginning of this year. These are Ostrov Mechty Retail and Entertainment Center, phase II of Smolensky Passage Shopping Center, Skazka Shopping Center, the shopping mall on the grounds of Ryazanskaya Transport Interchange Hub, and Angara Shopping Center. The total leasable area of the mentioned properties amounted to 118,200 sq m or 43% of the total new supply initially planned in 2018.

Thus, the total stock of the Moscow retail market amounted to 12.3 million sq m (GLA – 6.3 million sq m) by the end of Q3 2018. The overall delivery has summed up to 97,500 sq m in GLA since the beginning of 2018, which is down by a third yoy.

All the new shopping centers that came onto the market this year or scheduled to be opened by the end of 2018 have GLA of not more than 20,000 sq m, with only one exception, which is Kashirskaya Plaza Retail and Entertainment Center (GLA – 70,200 sq m). The trend of decreasing the average area of new properties has been noted since the beginning of 2017, while in the earlier 2014 through to 2016 years the average area of newly delivered shopping malls used to be twice as large and amounted to about 40,000 sq m.

Shopping centres opened in 2018. Shopping centers scheduled for opening by the end of 2018



Source: Knight Frank Research, 2018

Shopping malls opened in 2018

Title	Address	GBA, sq m	GLA, sq m
Q1			
Milya	Aviakonstruktora Milya St, prop. 7	38,000	18,765
Q2			
Kashirskaya Plaza	61 Kashirskoye Hwy, bld. 2	195,500	70,200
Petrovsky	Novopetrovskaya St, prop. 6	20,982	8,500
Q3			
-	-	-	-

Source: Knight Frank Research, 2018

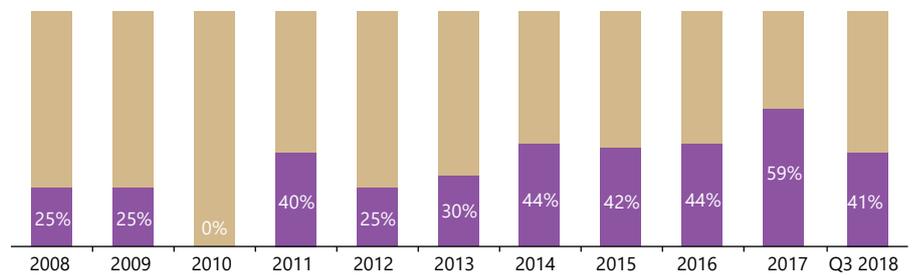
Demand

There is a decrease in the average vacancy rate for the shopping malls of Russia's capital caused by a slow paced delivery of new supply. As of Q3 2018, the rate of available spaces in professional shopping centers of Moscow dropped by 1.4% yoy and amounted to 7.1%.

Among the new brands that opened their first points of sales in Russia in Q3 2018 there are Haier, the Chinese manufacturer of home appliances and electronics, That's Living, the furniture and home goods from the USA, NaturaPura, the Portuguese apparel brand for newborns, Panda Express, the American food chain, and some others. All in all, 17 new international brands have entered the Russian market since the beginning of this year, which is almost 1.5 times less than last year's figure (28 brands).

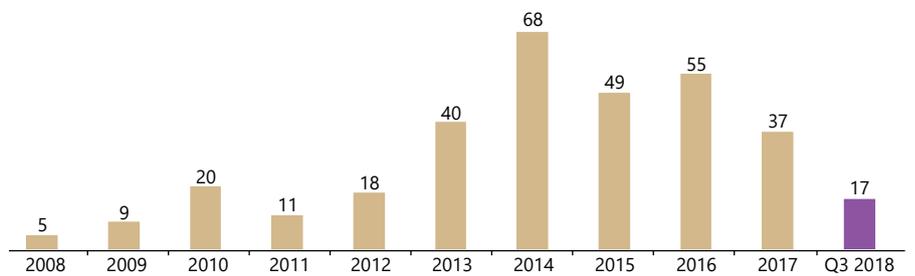
About one-third of all the new brands that came to Russia in 2018 refer to the category of Goods for Children, while a year ago, the most part of the brands new to the local market referred to the category of Apparel / Footwear / Lingerie (36% of all new brands). In terms of pricing, the

The structure of brands 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 2008–2018



Source: Knight Frank Research, 2018

International retailers who opened their first store in Moscow in Q3 2018

	Brand	Country	Profile	Price segment
1	Coach	USA	Accessories	Premium
2	That's Living	USA	Furniture/Interior	Premium
3	Naier	China	Household goods/Electronics	Premium/Upper middle
4	Liu Jo	Italy	Apparel / Footwear / Lingerie	Premium/Upper middle
5	Adolfo Dominguez	Spain	Apparel / Footwear / Lingerie	Upper middle
6	Karl Lagerfeld	France	Apparel / Footwear / Lingerie	Upper middle
7	NaturaPura	Portugal	Goods for children	Upper middle
8	Lipault	France	Accessories	Middle
9	GEOX Kids	Italy	Goods for children	Middle
10	Coccodrillo	Polish	Goods for children	Middle
11	Flormar	Turkey	Cosmetics / Perfumeriy	Middle
12	Skinfood	Korea	Cosmetics / Perfumeriy	Middle
13	Modern Easy Kids	Italy	Goods for children	Middle
14	Dino Zoo	Czech Republic	Pet supplies	Middle
15	Panco	Turkey	Goods for children	Low
16	Dushka	Ukraine	Cosmetics / Perfumeriy	Low
17	Panda Express	USA	Catering	Low

Source: Knight Frank Research, 2018

brands of the medium category prevailed in Q3 2018, while a year back, more than half of all brands referred to the above average or premium categories.

In Q3 2018, Crate&Barrel, the American furniture and home goods chain, was the only brand to announce its leaving the Russian market. Earlier, in H1 2018, two more retailers made announcements about leaving the country, and namely MediaMarkt, the German electronics and home appliances chain, and Clair's, the American accessories and fashion jewelry chain.

An English apparel and footwear brand L.K. Bennett closed its only offline point of sales in August, although it keeps working in Russia as an online store. It is worth mentioning that online shopping has been rapidly developing in Russia. Thus, the share of e-commerce in retail turnover has grown by two times over the past five years to amount to 3.8% by the end of 2017. We expect it to grow further on, as the number of Internet users keeps increasing.

Commercial terms

There was no significant volatility in the rental rates of the Moscow shopping centers in 2018. The upper end of the rental range is set for the properties with location advantages. Over Q3 2018, the upper limit of sales turnover interest grew only for some categories of retailers.

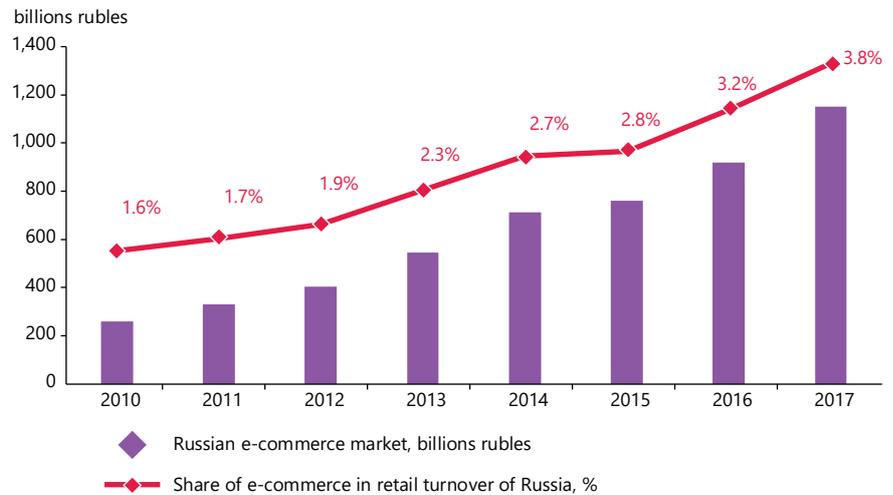
Forecast

Four new properties are expected to be opened in Q4 2018, their total leasable area amounting to 61,700 sq m, and namely Yuzhniy Shopping Center (phase II), VTB Arena Plaza Shopping Center, Galeon Shopping Center, and Metromall Shopping Center.

Thus, the annual growth of new supply is expected to be a quarter less in 2018 than last year's figure (GLA - 199,000 sq m) and will amount to not more than 159,000 sq m (GLA).

The vacancy rate for 2018 is forecasted in reference to the announced delivery of new supply in Q4 2018. So, provided that the announced shopping centers are actually opened by the end of 2018, we expect the vacancy rate to stand

E-commerce turnover dynamics in Russia



Source: Knight Frank Research, 2018

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
Supermarket (1,000-2,000 sq m)	12,000-23,000	4-8
Household 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
Sports goods (1,200-1,800 sq m)	6,000-12,000	6-8
Children's goods (1,200-2,000 sq m)	6,000-16,000	7-9
Operators of the shopping gallery:		
Anchors >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 centres (2,000-4,000 sq m)	4,000-8,000	10-14
Cinemas (2,500-5,000 sq m)	0-6,000	8-12
Public catering:		
Food-court	45,000-150,000	8-15
Cafes	15,000-90,000	12-14
Restaurants	0-25,000	10-12

* Commercial conditions discussed during negotiations
Lease rates indicated without VAT and operating expenses

Source: Knight Frank Research, 2018

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at 7.1 through to 7.5%. In case the opening of most of the announced properties gets rescheduled for 2019 from Q4 2018, the vacancy rate for retail spaces of Moscow might drop below 7%.

New international brands will be appearing on the Russian market at a slower rate. By the end of 2018, the number of retailers new to the Moscow market is likely to be down by one-third yoy (37 brands).

In the coming years, the new supply of the Moscow market will be formed mostly by community centers within residential complexes and re-designed properties that were once conceptually outdated, as well as the shopping centers within transport interchange hubs.

Shopping centers scheduled for delivery in Q4 2018

Title	Address	GBA, sq m	GLA, sq m
Yuzhnyy	Kirovogradskaya St, prop. 9, bld. 4	28,200	20,000
VTB Arena Plaza	36 Leningradsky Ave	30,000	17,180
Galeon	The intersection of Leninsky Ave and Ostrovityanova St	28,800	14,000
Metromall	73 Dmitrovskoye Hwy	13,780	9,990

Source: Knight Frank Research, 2018



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