

RESEARCH



Q3 2019

RETAIL MARKET REPORT

Moscow

HIGHLIGHTS

- ◆ Phase II of Yuzhniy Shopping Center (GLA – 20,000 sq m) was opened in Moscow in Q3 2019, and so did two new neighborhood level shopping centers with the GLA of under 5,000 sq m each.
- ◆ The vacancy rate is declining in shopping centers. It amounted to 6.6% in Q3 2019.
- ◆ Major developers continue their renovation campaign upgrading the existing shopping centers.
- ◆ The activity of new international retail operators is decreasing. Thus, only 17 new brands entered the Russian market, just like a year ago.
- ◆ The rent rates for retail premises in shopping centers didn't change substantially and mostly remained flat.



Evgeniya Khakberdieva
 Director of Retail Department,
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“Currently, we see that the delivery of new retail properties is low; the opening dates of those projects that have been under construction for a while get rescheduled, and often it has to do with a low occupancy rate rather than a low construction readiness. As for the cities throughout Russia that have a low provision of high-quality retail premises, the demand for those locations is much higher. This trend points to the fact that the market of Moscow and those of the cities with more than a million inhabitants are getting close to being saturated as well as that the focus is being shifted toward the regional markets of Russia.”

RETAIL MARKET REPORT MOSCOW

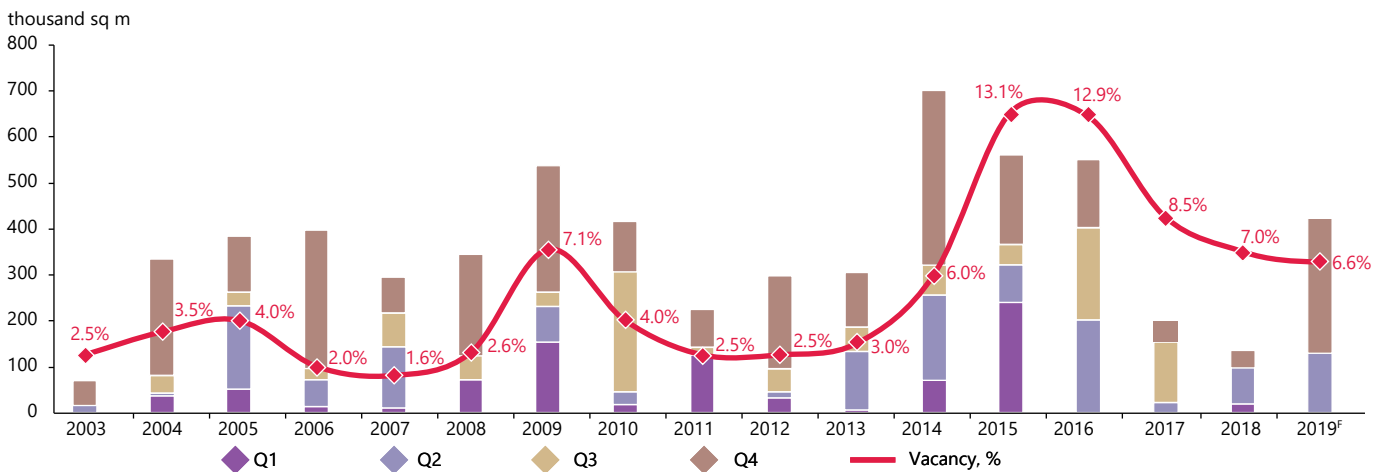
Key indicators*

Shopping centres stock (GBA / GLA), million sq m	12.7/6.49
Scheduled for opening in 2019 (GBA / GLA), thousand sq m	646.4/293.7
Vacancy rate, %	6.6% (0.5 p. ↓)**
Fixed rental rent:	
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 centres per 1,000 citizens	513,5

* The chart data refers only to high quality and professional retail properties. A professional shopping center is a building or a group of buildings sharing the same architecture style, concept, and under common management, with a total area of more than 5,000 sq m.
 ** As compared to Q4 2018.

Source: Knight Frank Research, 2019

Volume of opened shopping centers and vacancy rate dynamic



Source: Knight Frank Research, 2019

Supply

As of Q3 2019, the total stock of retail premises grew by 20,000 sq m as compared to Q1 2019. Phase II of Yuzhniy Shopping Center (GLA – 20,000 sq m) was commissioned. Two smaller neighborhood level shopping centers were opened as well, namely Bagrationovskiy and Moya Vetka, their GLA amounting to under 5,000 sq m each. Therefore, the supply of the functioning properties amounted to 6.49 million sq m in GLA and 12.7 million sq m in GBA in Q3 2019. All in all, 149,000 sq m were delivered so far in 2019, which is by 1/3 more than a year ago (only 97,500 sq m in GLA). It is worth mentioning that 70% of new supply accounted for just one super regional shopping mall, i.e. Salaris Shopping and Entertainment Center (GLA – 105,000 sq m).

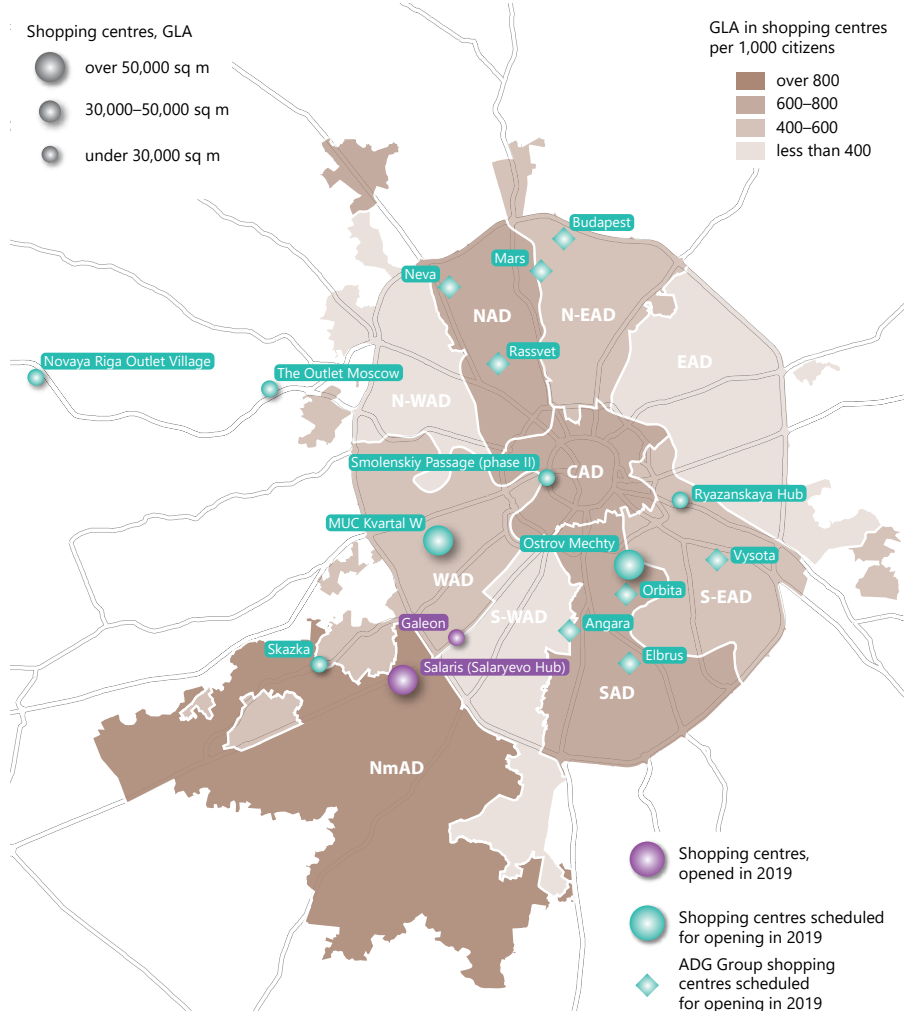
The gross leasable area in quality shopping centres remain 513.5 per 1,000 inhabitants, the figure remained unchanged since Q2 2019, while it grew by 2.4% as compared to last year. This ranks Moscow fifth among the Russian cities with over one million inhabitants, yielding to Ekaterinburg, Samara, Nizhniy Novgorod, and St. Petersburg.

Demand

The vacancy rate amounted to 6.6% in the Moscow shopping centers in Q3 2019, which is by 0.5 p.p. less than a year ago and in Q2 2019. The decreasing vacancy is due to both the lack of new supply in Q3 2019 as well as the rapid leasing out the vacant premises.

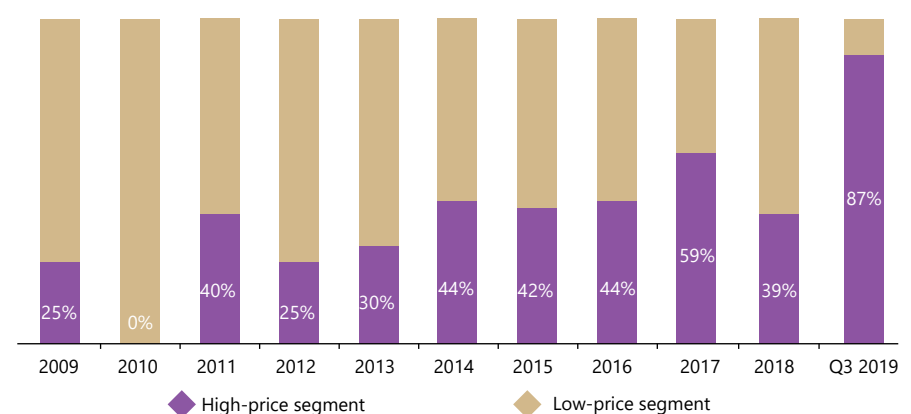
Over the period under consideration, the vacancy dropped significantly in Mozaika SEC, which is currently being updated, in Butovo Mall SEC, that is now being leased out actively, and in Salaris SEC, which has less than 5% of vacant premises left despite its recent opening. The largest vacancy rate is still in Europolis Rostokino SEC, (former Golden Babylon Rostokino SEC), which is almost 10%, as well as in Zelenopark SEC, MARI SEC, and some others. It is worth mentioning that Europolis Rostokino SEC, just like some other Moscow properties by Fort Group, is currently under a massive renovation. It results in closing large zones of the shopping center (at the moment, almost 20% of the property is closed for the customers), which is another negative factor for retailers, but inspires hope for a soon change of the situation.

Shopping centers opened in H1 2019 and scheduled for opening by the end of 2019



Source: Knight Frank Research, 2019

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

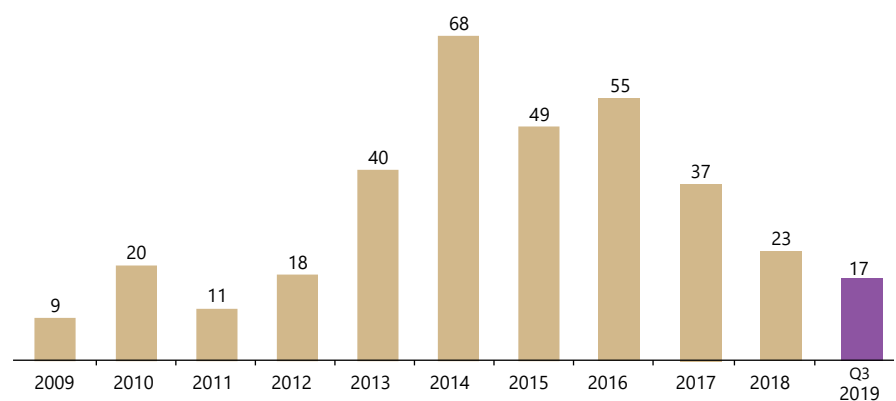


Source: Knight Frank Research, 2019

Major developers continue their renovation campaign upgrading the existing shopping centers in order to prolong the lifespan of their properties and to attract new customers. Thus, the developer Crocus Group started renovating Vegas Kashirskoye Shosse SEC, while corporation Garant Invest is reconceptualizing Perovo Mall acquired in 2018. Tashir Group of Companies plans to finalize the rotation of tenants in RIO SEC at Dmitrovskoye Highway by the end of the year. The first stage of renovation of MEGA shopping centers is coming to the end in Moscow. The reconstruction of Olympiyiskiy Stadium was announced by Kiyevskaya Ploshchad company promising a retail component to be part of the renewed property. Apart from that, the renewed Konkovo Passage is scheduled to be opened in fall 2019.

The improvement of quality features of the shopping centers is the developers' response to the changed customer requirements. The modern consumer is not interested in visiting a shopping center only to buy. This task can be completed without even leaving the house thanks to online stores and market places. The modern customer is interested not only in the selection of stores but also in the emotional component of the project, as well as the additional options for their spare time, leisure, and self-development. This is why expansion and varying formats

Dynamics of new international retailers' volume over the past 10 years, items



Source: Knight Frank Research, 2019

in the food and entertainment zones are the key points the renovation is based upon. Single properties undergo a full-scale tenant rotation as the owners reconsider the tenant-mix.

The retailers, in their turn, open up in new conceptual designs and expand their assortment. Leroy Merlin opened two new formats of stores. Among them a 1,400 sq m Factory of Ideas, the creative workshop in the territory of ZIL, focusing on innovation: virtual reality technology, service, and experiments. The other one is a

1,200 sq m urban supermarket in Columbus SEC. IKEA opened its first store within the city line called Probnik (7,700 sq m) located in Aviapark SEC. The trend of shrinking hypermarkets is acquiring new incarnations. Thus, new furniture and home goods zones Hoff will start their work on the grounds of Carousel hypermarkets in a new shop-in-shop format. The first cross-format project will be launched in Novaya Riga.

Only three international retail operators came to the Russian market in Q3 2019. Among them Carter's, the American brand

International operators that came to the Russian market in Q1-Q3 2019

	Brand	Country	Profile	Price segment
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
6	Hackett	Great Britain	Apparel / Footwear / Lingerie	Premium
7	EA7	Italy	Apparel / Footwear / Lingerie	Premium
8	Sandro Homme	France	Apparel / Footwear / Lingerie	Premium
9	Sanders Grill by KFC	USA	Food&Beverages	Under middle
10	Richard Mille	Switzerland	Jewelery/ Watches	Premium
11	Giovanni Raspin	Italy	Jewelery/ Watches	Premium
12	VFiles Yellow Label	USA	Apparel / Footwear / Lingerie	Upper middle
13	Off-White	Italy	Apparel / Footwear / Lingerie	Premium
14	Birkenstock	Germany	Apparel / Footwear / Lingerie	Upper middle
15	Jonak	France	Apparel / Footwear / Lingerie	Upper middle
16	Gagà Milano	Italy	Jewelery/ Watches	Премиальный
17	Carter's	USA	Goods for kids	Under middle

Source: Knight Frank Research, 2019

of children's goods, that opened its first store in MEGA Teply Stan SEC. There is also an Italian brand of premium watches, Gagà Milano, in Gimenez SC, and an Italian footwear brand Jonak, who chose Aviapark SEC for the location of its first store.

Regarding the categories of brands that came to the Russian market in 2019, the leader is the 'Apparel, Footwear, Lingerie' profile with its 67%. It is worth mentioning that this sector has been leading the way in terms of new openings for the past five years, although its share didn't exceed 50% in 2015–2018.

As for the pricing policy, the majority of the brands (88%) referred to the price categories 'upper middle' and 'premium' in Q3 2019. Looking back at the past 10 years, we can see that the figure went above 50% only in 2017 (59%), while the rest of the time the brands in the middle pricing segment has prevailed. These dynamics (2017 – 59%, 2018 – 39%, 2019 – 88%), set against the backdrop of the general decrease in the number of new brands (from 28 to 17 over two years), suggest that the middle pricing segment brands don't consider the Russian market as an expansion destination. The following brands are expected to enter the market: &OtherStories (Apparel), WeekDay (Apparel), Urban Revivo (Apparel), Minimi (Children Apparel), Skin&Co Roma (Cosmetics), CJ CGV (movie theater, expected to be opened in Salaris SEC in the near future), DreamPlay Theme Park in Aviapark SEC, as well as such F&B chains as Hana Group, Holland&Barrett, and Matsuya. Poney Group, the Malaysian brand of children's clothes, has recently announced its intentions to enter Russia.

In their turn, five retailers announced closing their stores. Among them Next, Superdry, Under Armour, and Tomas Sabo.

Commercial terms

The rental rates for retail premises in shopping malls didn't undergo any significant changes over Q3 2019 generally remaining in the same price range. The top range basic rent rates accounted for the premises within the food court zone and for pop-up retail in the functioning properties with solid foot traffic, reaching 150,000 rubles per sq m per year. The lower range rents were set for anchor tenants taking up the spaces of over 2,000 sq m.

Forecast

Despite the announced plans to open 16 properties with the cumulative gross leasing area of 294,000 sq m (see the chart) by the end of 2019, the leasing campaigns proved to require more time, which repeats the situation of 2016–2018 and affects the actual delivery dates. This considered, the following properties are very likely to be opened: Kvartal West Mixed-Use Complex (GLA – 68,000 sq m), two shopping centers within Skazka Transport Interchange Hub (GLA – 18,608 sq m) and Ryazanskaya Transport Interchange Hub (GLA – 14,000 sq m), a neighborhood center Gravitatsiya (GLA – 18,500 sq m), phase II of Smolenskiy Passage (13,000 sq m), and

Angara, the first redevelopment object by the developer company ADG Group. Apart from that, the opening of the renewed Konkovo Passage Complex is scheduled for fall 2019.

Some of the shopping center openings expected in 2019 are likely to be rescheduled for 2020. ADG Group properties may refer to those. The opening of Ostrov Mechty SEC may be postponed due to the scale and complexity of construction. Thus, the actual volume of new supply may amount to 138,900 sq m in Q4 2019, which will take the annual figure to 287,900 sq m. That is, nevertheless, twice as much as the 2018 figure.

Rental rates in Moscow shopping centers

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	4–6
Supermarket (450–900 sq m)	18,000–35,000	6–8
Household goods (<1,500 sq m)	6,000–10,000	10–12
Household appliances and electronics (1,200–1,800 sq m)	8,000–20,000	2.5–5
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	8,000–18,000	6–14
100–150 sq m	16,000–36,000	10–14
50–100 sq m	25,000–80,000	12–14
0–50 sq m	45,000–120,000	12–14
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	12–15
Cafes	15,000–90,000	12–15
Restaurants	0–25,000	10–15

* Negotiated commercial terms

Source: Knight Frank Research, 2019

Retail properties of smaller formats have been rapidly developing since the beginning of 2018. Thus, two to four new shopping centers, with GLA of three to 20 thousand sq m have been opening in Moscow on a quarterly basis. The format owes its popularity to the consumers seeking to save time and often prefer retail properties within their immediate neighborhood. That affects the commercial attractiveness of the format directly and results in a sooner return on investment of a smaller retail property rather than a major shopping center. A conception of a smaller property designed to meet the needs of the foot target audience is able to offer a diverse and comfortable environment for leisure, shopping, and entertainment. Considering the market situation at hand, the format is set to gain popularity further on, both with developers and consumers.

The neighborhood shopping centers are represented by the following properties: a shopping center in Aviakonstruktora Milya Street, total area equaling to 11,000 sq m, which is situated close to the functioning Milya SC, and a shopping center located in Leninskiy, 38 Residential Complex, with its gross leasing area amounting to 10,000 sq m which is planned to be opened in 2021.

As for 2020, apart from the net of neighbourhood centers by ADG Group, there are another two properties expected, i.e. Stolitsa SC (GLA – 11,900 sq m) in Moskovskiy and Vnukovo Premium Outlet (GLA – 11,900 sq m), adjacent to the functioning Vnukovo Outlet Village.

In addition to the community centers, the new supply of Russia's capital will also be composed of the retail premises located within transport interchange hubs. 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 interchange hub projects, most of which have a retail component. Thus, the construction of shopping malls is announced to take place within Vykhino Transport Interchange Hub (GLA – 70,000 sq m), Seligerskaya (GBA – 145,000 sq m) and Park Pobedy (GBA – 237,000 sq m) by Tashir, Shchelkovskaya Transport Interchange Hub by Kiyevskaya Ploshchad, Botanicheskoy Sad Transport Interchange Hub (GLA – 27,000 sq m), Khovrino Transport Interchange Hub (GBA – 25,000 sq m). Apart from that, an affiliate of Kiyevskaya Ploshchad applied for an investment package for Nagatinskaya Transport

Shopping centers which will be opened by the end of 2019

Name	Address	GBA	GLA
Ostrov Mechty	Nagatinskaya Poyma	280,000	70,000
Kvartal West	Amin'evskoe highway 15	125,000	68,000
Novaya Riga Outlet Village	Novaya Riga, Pokrovskoye village, 68 Tsentralnaya St	38,000	25,280
Gravitatsiya	Chertanovskaya str.	30,000	18,500
Skazka (Rasskazovka Transport Interchange Hub)	Borovskoye Hwy / Korneya Chukovskogo St	29,000	18,608
The Outlet Moscow	Novaya Riga, 5 km from MKAD	27,000	14,500
Ryazanskaya (Ryazanskaya Transport Interchange Hub)	Nizhegorodskaya St	20,000	14,000
Smolenskiy Passage (phase II)	Smolenskaya Sq, prop. 7–9	14,800	13,000

ADG Group Projects

Name	Address	GBA	GLA
Angara	7 Chongarskiy Blvd	12,479	6,785
Budapest	14 Leskova St	19,103	9,736
Rassvet	23 Zoyi i Aleksandra Kosmodemyanskikh St	9,365	6,460
Mars	Ingenernaya str, 1	8,070	6,184
Vysota	Unykh lenintsev str, 52	8,944	6,139
Orbita	27 Andropova Ave	9,066	5,958
Neva	Belomorskaya str, 16A	8,664	5,890
Elbrus	Kavkazskiy bul., 17	6,919	4,701

Source: Knight Frank Research, 2019



Interchange Hub. The mentioned properties are scheduled to be delivered within 2019-2022.

Among other announced shopping centers there are: Paveletskaya Plaza (GLA/GBA – 35,000 sq m/73,000 sq m) scheduled for delivery by the end of 2020. A construction permit has been issued to build Gorod Kosino SEC (GLA/GBA – 72,000 sq m/127,000 sq m). The start of construction of Prokshino Mixed-Use Complex by Safmar (GBA – 332,000 sq m) is expected in 2010.

Against the backdrop of new retail property deliveries in 2019, we expect a slight increase in the vacancy rate in the shopping centers to 7,7%. However, the vacancy rate in stable shopping centers having been functioning more than two years is set to decline.

Shopping malls (GLA 3,000 – 20,000 thousand sq m) opened in 2018-2019

Year	Object	GBA	GLA
2018	Design mall	20,000	11,000
2018	Metromall	14,795	10,586
2018	Krasnoprudnyi	20,000	9,899
2018	Petrovskiyi	20,982	8,500
2018	Kozhukhovskiyi	10,000	7,000
2018	Clever	8,635	6,045
2018	SC Novokosinskaya	5,000	3,500
2018	SC Borisovskie Prudy	4,800	3,360
2018	Mart	4,000	2,800
2018	Nikolin Park	4,300	2,600
2019	Gavan	26,000	18,200
2019	Galeon	28,800	14,000
2019	Bagrationovskiyi	10,700	4,700
2019	Moya Vetka	4,808	3,875

Source: Knight Frank Research, 2019



SALARIS



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