

RESEARCH



H1 2019

STREET RETAIL MARKET REPORT

Moscow



Highlights

- As of H1 2019, the cumulative area of street retail premises amounted to 538,600 sq m, the average lot area amounting to 194.4 sq m, while the new supply did not record any growth over the past year.
- There has been a drop in the vacancy rate throughout the street retail premises in all directions. The largest decrease by 4.9% was reported for the Sadovoe Kolco, where the vacancy rate currently amounts to 11.9% against 16.8% in 2017. Meanwhile, the vacancy on the streets within the Sadovoe Kolco declined by 3.8 p.p. to 2.1%.
- The declining average lot area was among the trends of 2019. The figure dropped to 194.4 sq m in 2019 against 196.6 sq m in 2018 and 199.4 sq m in 2017.
- Public catering is leading the way in the tenant profile structure, with its share amounting to 41.9%.
- Street retail tenants of pricy sectors are currently being pushed out by those available to the mainstream audience.
- Gastronomic spaces have been developing rapidly. These include gourmet markets with food courts and food halls.
- There is a growing demand on the part of small and medium-sized businesses currently occupying the ground floors of the buildings that are subject to renovation.
- The supply of street retail premises is forecast to grow in peripheral districts of Russia's capital as well as close to new transport hubs.

STREET RETAIL MARKET REPORT MOSCOW

According to Knight Frank, there are three categories of street retail premises by placement, namely:

- Those on pedestrian streets with intense pedestrian flow.
- Those in central trade corridors with foot and vehicle traffic (aka transport and pedestrian corridors).
- Those on high streets.

Further on, this report is overlooking the situation in each of the mentioned submarkets in detail.

Key market indicators of supply

Key market indicators, units	H1 2018	H1 2019
Central pedestrian trade corridors*		
Total stock of street retail premises, sq m	110,800	110,800
Number of street retail premises, units	488	499
Average area per lot, sq m	224.4	221.6
Central transport and pedestrian trade corridors**		
Total stock of street retail premises, sq m	472,800	472,800
Including:		
Total stock of street retail premises of the Boulevard Ring, sq m	64.3	64.3
Total stock of street retail premises of the Garden Ring, sq m	129,400	129,400
Total stock of street retail premises of other central trade streets, sq m	279,100	279,100
Number of street retail premises, units	2,800	2,700
Average area per lot, sq m	166.5	171.9
Trade corridors of avenues***		
Total stock of street retail premises, sq m	254,700	250,600
Number of street retail premises, units	1,660	1,650
Average area per lot, sq m	153.4	151.9

* Based on 14 pedestrian streets or their parts that are most sought-after by retail operators: Arbat, Kuznetskiy Most (partially), Nikolskaya, Rozhdestvenka (partially), Kamergerskiy Lane, Stoleshnikov Lane, Tretyakovskiy Passage, as well as a number of locations within Yakimanka and Zamoskvorechye Districts.

** Based on 47 central trade corridors within the Garden Ring (including the streets of the Garden Ring) that are most popular with retailers.

Source: Knight Frank Research, 2019

Supply

As of H1 2019, the cumulative area of street retail premises amounted to 583,600 sq m in the pedestrian and central trade corridors of Moscow, with the average lot area amounting to 194.4 sq m.

The stock of street retail premises located on the central streets of the city amounted to 110,800 sq m.

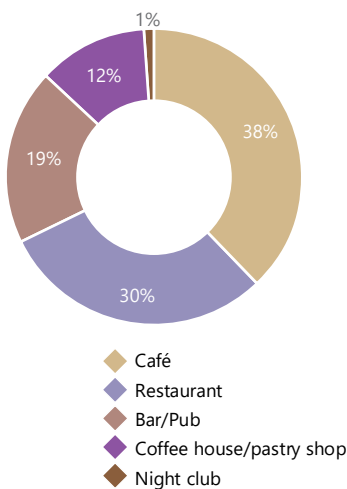
It is worth mentioning that as of July 2019, about 1,500-2,500 sq m of street retail spaces were situated within the buildings under renovation (Nikolskaya Street).

The decreasing average lot area is among the current trends in terms of supply. Thus, it amounted to 194.4 sq m in H1 2019 against 196.6 sq m in H1 2018. This trend is largely due to the demand coming from the market, namely those operators willing to be closer to their consumers. A smaller format allows the retailer to enter a larger number of properties, while a larger rental space decreases the number of available offers.

Apart from that, in terms of new street retail supply, it is worth mentioning that those developers aiming at getting faster returns on their investments design new commercial premises so that small-sized units prevail, while the rent rate for them is much higher than that for larger lots. In particular, it is the case for the items located in the city center.

Public catering is leading the way in the tenant profile structure of pedestrian and transport and pedestrian streets, with its share amounting to 41.9% (the annual growth

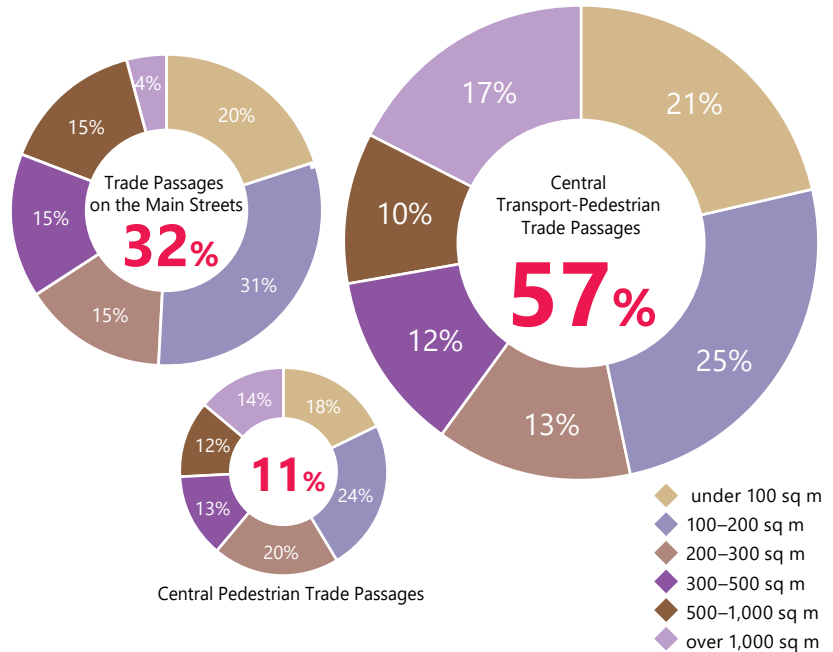
Public catering places by type*



* Of total number of places located in the street retail premises within the Garden Ring.

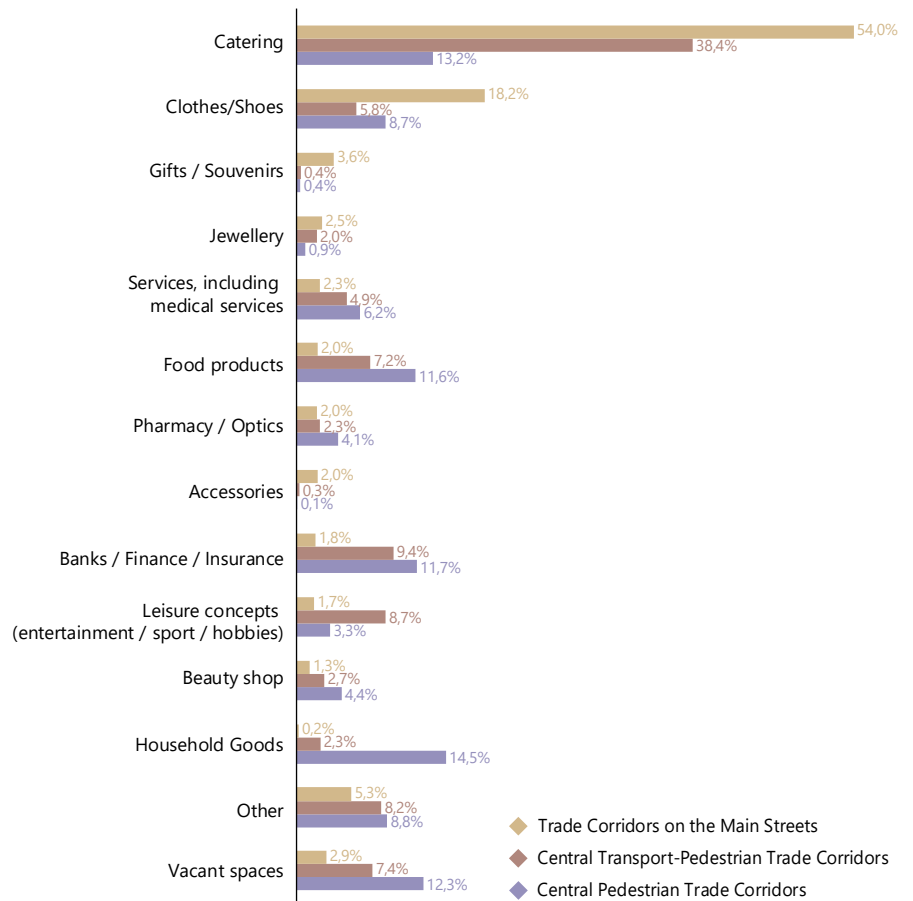
Source: Knight Frank Research, 2019

Tenant structure by area, sq m



Source: Knight Frank Research, 2019

Demand structure by tenant profile (lot areas), H1 2019



Source: Knight Frank Research, 2019

STREET RETAIL MARKET REPORT. MOSCOW

is 1.1 p.p.). The share of fashion retailers amounts to 8.4% (the annual growth is 0.1 p.p.). Bank offices take up 8.1% of the spaces. The share of service operators amounts to 7.3%, while the share of grocery stores has grown by 0.1 p.p. to 6.0% yoy.

The tenant profile structure of Moscow's high streets is diverse, nonetheless it is solid. Household goods (interior design and furniture stores, finishing supplies, etc.) take up a quarter of all available supply (20.5%) on Komsomolskiy Avenue and Leninskiy Avenue. Public catering places, namely restaurants, cafes, coffee shops, fast food places, etc., account for the largest share of spaces (18%) on Mira Avenue and Leningradskiy Avenue. The share of household goods amounts to only 7.2%.

Catering operators are most eager to occupy the spaces located on pedestrian and transport and pedestrian streets of the city and account for the largest share in the structure of demand, that is 54% and 38.4% accordingly (a 1.3 p.p. growth).

It is worth mentioning that the operators of cafes and restaurants prefer Kamergerskiy Lane (85% of all spaces of the street account for public catering), Klimentovskiy Lane (77%), Arbat Street (72%), Nikolskaya Street (59%), Bolshaya Dmitrovka Street (59%), and Pyatnitskaya Street (55%). At the same time, the share of this tenant profile is significantly lower on high streets and amounts to 13.2%. However, it recorded a 0.5 p.p. growth as compared to H1 2018.

The catering places within the Garden Ring mainly occupy the premises of under 100 sq m (39%) and those of 100 sq m through to 200 sq m (36%). A small share of restaurants is located in the spaces of over 500 sq m. These are either large chain restaurants or beer places or family places.

Food hall has been developing rapidly as a format over the past 2 years. Currently, more than 20 projects can be referred to it, all of which are located on the central streets. Among them there are Food Store on Rozhdestvenka, Gastrocenter in Zaryadye Park, Food Store in Bauman Garden and on Kuznetskiy Most, certain projects on the ground floors of office complexes, such as Gastroferma on Baumanskaya, EatMarket on Timura Frunze, StrEat on Leninskaya Sloboda, and Vokrug Sveta on Nikolskaya Street. This format is also a big success at the squares of renovated food markets of Moscow, namely Danilovskiy, Usachyovskiy, Cheryomushkinskiy, as well as Central Markets on Maroseyka Street and on Rozhdestvenskiy Boulevard.

Vacancy changes in street retail, H1 2019 to H1 2018

Indicator	H1 2018	H1 2019	Change
Pedestrian streets	2.1%	2.9%	0.8 p.p.
Transport and pedestrian streets	7.5%	7.4%	- 0.1 p.p.
The Garden Ring	11.9%	10.4%	-1.5 p.p.
High streets	13.4%	12.3%	- 1.1 p.p.
Kutuzovskiy Avenue	25.5%	21.6%	-3.9 p.p.

Source: Knight Frank Research, 2019

The format grew by two more significant properties in H1 2019. One of them is Depo Moscow Food Mall located in place of a former trolley bus rail yard and featuring about 70 concepts of world cuisines at about 100 corners. There are plans for opening a line of 20 bars there in the nearest future. The other one is Baltschug Gastro Market featuring 24 corner shops.

The average area of gastro spaces is larger than the format of traditional catering places and amounts to over 800 sq m. More than half food halls offer over 20 various concepts of world cuisines. This year's leader of such is Depo with its 70 corners. It has replaced last year's leader StrEat, the food hall in Leninskaya Sloboda, whose guests have an opportunity to try the courses from 38 world cuisines.

Vacancy rate

With the program of urban renovation 'My Street' coming to an end, most of the central streets have become more convenient and pleasant for walking, due to which there has been an increase in foot traffic, which in its turn has led to a decline in vacancy rates. As of H1 2019, the vacancy rates in the major central trade corridors amounted to 8.3% (instead of 8.7% a year earlier). The vacancy of street retail premises declined throughout all the directions. The largest drop of 4.9% was reported for the Garden Ring, where the vacancy currently stands at 10.4% against 11.9% in H1 2018. However, the vacancy rate rose by 0.8 p.p. to 2.9% on the pedestrian streets within the Garden Ring.

The vacancy of street retail spaces located on the five major avenues of Moscow (Leninskiy, Mira, Kutuzovskiy, Komsomolskiy, and Leningradskiy) reached 12.3% of the total amount of trading property in these locations. The vacancy dropped by 1.1 p.p. yoy. The largest vacancy of 21.6% was recorded for Kutuzovskiy Avenue out of all

high streets under consideration. Due to the renewed parking rules, the preferences of the wealthy shoppers of Kutuzovskiy Avenue shifted towards more convenient shopping places, i.e. premium class shopping malls. This in its turn led to the high-end operators starting to flee this trade corridor. The vacancy rate amounted to 21.65% in this location in H1 2019, having dropped by 3.9 p.p. yoy. The lowest vacancy rate was recorded for Komsomolskiy Avenue and Leninskiy Avenue (9.1% and 9.6% accordingly).

Currently, the vacancy rate throughout all the street retail premises of the city amounts to more than 30,400 sq m, which basically matches the size of a district-level shopping mall.

Rent rates

As of H1 2019, the highest asking rent rates accounted for the premises located in Stolesnikov Lane (there has been an expansion in the rent rates corridor), as well as on Kuznetskiy Most Street and Petrovka Street (with a growth in the rent rates corridor).

The upper range of the rent rates has declined in most of the key trade corridors of the city by 8 to 18%, depending on the street.

The bottom range of the rent rates remained flat in H1 2019 and amounted to 30,000 rub./sq m/year (Mira Avenue and the Garden Ring).

A growth in the rent rates range took place in Stolesnikov Lane from 85,000-250,000 rub./sq m/year to 100,000-270,000 rub./sq m/year. The same situation was observed in Myasnitskaya Street, with the rents having grown from 45,000-100,000 rub./sq m/year to 65,000-145,000 rub./sq m/year. The rent rate corridor was expanded in Kutuzovskiy Avenue, with the bottom range lowering from 40,000 to 35,000 rub./sq m/year and the upper range growing from 75,000 to 80,000 rub./sq m/year.

The changes in the upper range of rent rates, H1 2019 to H1 2018

Street or shopping area	Rent rate (rubles per sq m per year), no VAT included				Annual change, p.p.
	H1 2018		H1 2019*		
	min	max	min	max	
Stoleshnikov Lane	85,000	250,000	100,000	270,000	8%
Kuznetskiy Most St	65,000	220,000	65,000	220,000	0%
Tverskaya St (the section from Okhotniy Ryad metro station to Pushkinskaya metro station)	45,000	170,000	45,000	160,000	-6%
Nikolskaya St	70,000	160,000	70,000	160,000	0%
Myasnitskaya St	45,000	100,000	65,000	145,000	45%
Mira Ave	30,000	120,000	30,000	145,000	13%
Patriarshiye Prudy	70,000	130,000	70,000	130,000	0%
Arbat St	50,000	130,000	60,000	125,000	-4%
Pyatnitskaya St	36,000	130,000	35,000	125,000	-4%
Kamergerskiy Lane	60,000	120,000	60,000	120,000	0%
Petrovka St	50,000	120,000	45,000	120,000	0%
Noviy Arbat St	40,000	110,000	45,000	105,000	-5%
Kutuzovskiy Ave	40,000	75,000	35,000	80,000	7%
The Garden Ring	30,000	85,000	30,000	80,000	-6%

* The data is arranged according to the upper range in H1 2019.

Source: Knight Frank Research, 2019

Forecast

The plan that the city authorities are implementing in order to create a convenient urban environment for pedestrians and minimize car traffic in locations under renovation will contribute to the further growth in foot traffic. It is expected to grow by up to 10% annually in such neighborhoods. Due to that, we expect the share of catering operators residing in street retail premises to grow in the near future, while fashion retailers will gradually decrease their presence. In the next year or two, public catering is likely to continue growing its share in central locations from the current 42.8% (40.8% in 2018) by 5-7%. Same is expected for the districts situated between the Third Transportation Ring and the Moscow Ring Road, where more than 80% of Moscow's inhabitants are residing.

The available spaces along high streets will be gradually decreasing. The vacant spaces will be taken by the operators who count upon

the consumers living within the nearest foot distance. Among such operators there are grocery stores, banks, and services.

The new program by Moscow City Government 'My District' that is directed at the improvement of public services in the peripheral dormitory suburbs, which started at the end of 2018, as well as the development of traffic infrastructure (the metro, the Moscow Central Circle, and the Moscow Central Diameter rail lines) resulting in further improvement of public services in the territories around metro stations will become a significant factor affecting the growth in new supply of street retail spaces.

In the near future, the delivery of new transport interchange hubs containing retail spaces will contribute to the growth in street retail supply of Russia's capital.

STREET RETAIL

Viktoria Kamlyuk

Head of Street Retail, Knight Frank
viktoria.kamliuk@ru.knightfrank.com

RESEARCH

Olga Shirokova

Director, Russia & CIS
Olga.Shiroikova@ru.knightfrank.com

+7 (495) 981 0000



© Knight Frank LLP 2019 – 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.