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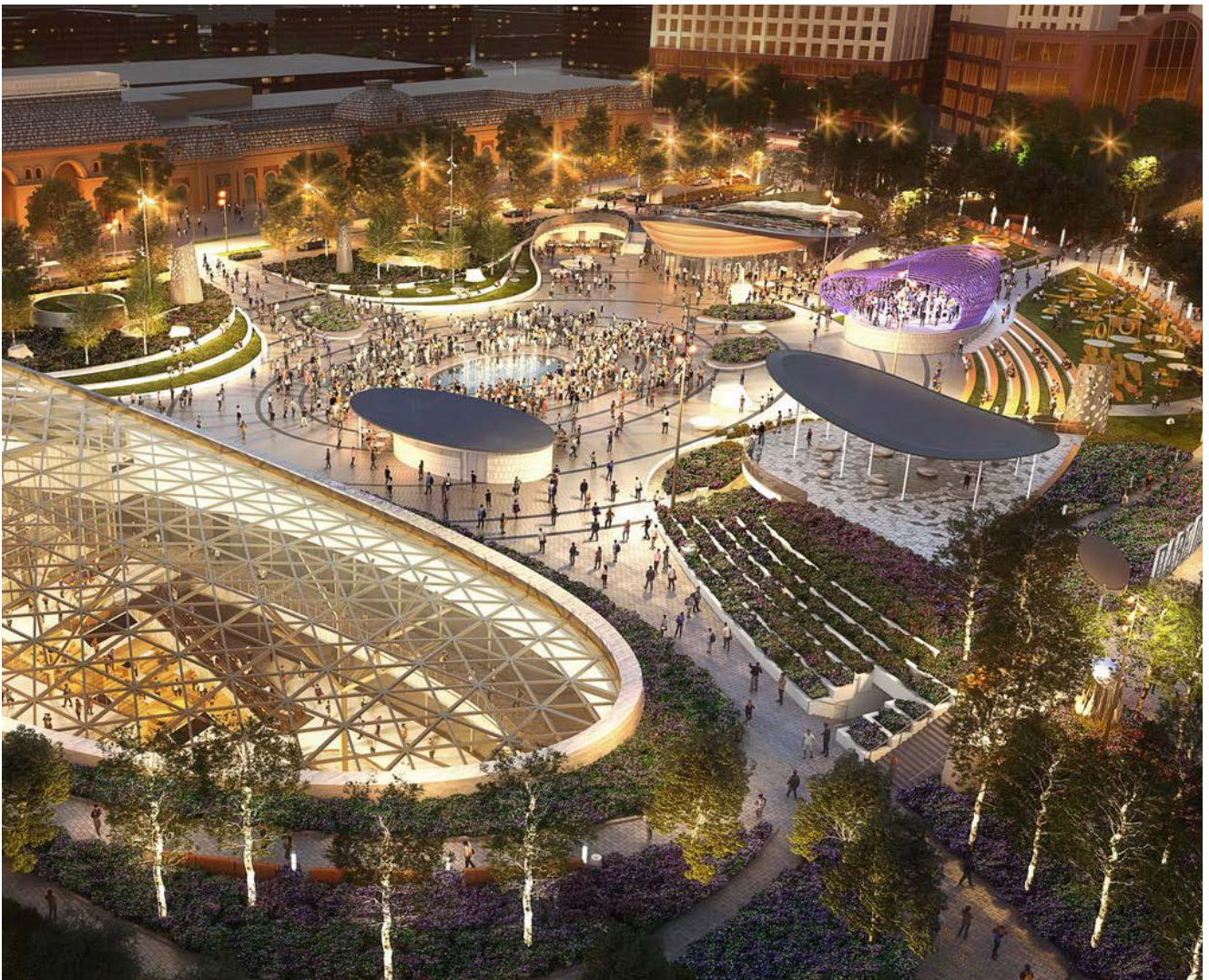
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MOSCOW RETAIL MARKET REPORT

HI 2021

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«In 1H2021 the retail market showed a clear willingness to develop and open new stores. The tenants were ready to discuss not only existing projects, but also those under construction, which testifies to their optimism and readiness for long-term planning. It is also important that despite the current restrictions in a number of countries, including Russia, we record the entry of new international brands into the Russian market. In general, companies that have been present on the domestic market for a long time and see potential for development are ready to open new projects in those shopping centers where they are already represented and reached a good turnover, due to which they can increase brand awareness and customer loyalty.»

Key indicators. Shopping centres*. Dynamics

Shopping centres stock (GBA / GLA), million sq m	13.8/6.9
Opened in 2020 (GBA / GLA), thousand sq m	103.7/64.5
Scheduled for opening in 2021 (GBA / GLA), thousand sq m	≈883/≈482
Vacancy rate, %	12.5(+2.5 p. p.)**
Fixed rental rent:	
Retail gallery tenants, RUB/sq m/year	0–100,000
Anchor tenants, RUB/sq m/year	3,000–15,000
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	532.2

* 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 H1 2020

Source: Knight Frank Research, 2021

Key conclusions

- ♦ According to the results of the 1H 2021, 4 retail properties were opened in Moscow, their cumulative GLA amounting to 64.5 thousand sq m.
- ♦ The new supply volume demonstrated a negative trend (-60% YoY).
- ♦ The volume of new completions amounting to 520 thousand sq m. GLA is expected in 2021, over 40% of which was carried forward from 2020.
- ♦ The vacancy rate increased to 12.5% (2.5 pp higher than in the 1H 2020).
- ♦ Against the tumultuous economic environment caused by the pandemic and the recession, the main policy of developers is to retain tenants and that of retailers — to optimize the number of retail stores.
- ♦ Compared to the same period of the last year, rental rates remain at the same level.
- ♦ It is possible that the commissioning of about 30% of the facilities previously announced for opening in 2021 will be postponed.
- ♦ There remains weak activity of new international retail operators: 7 new brands entered the Russian market, that is 17% higher than in 2020 (6 brands).

Supply

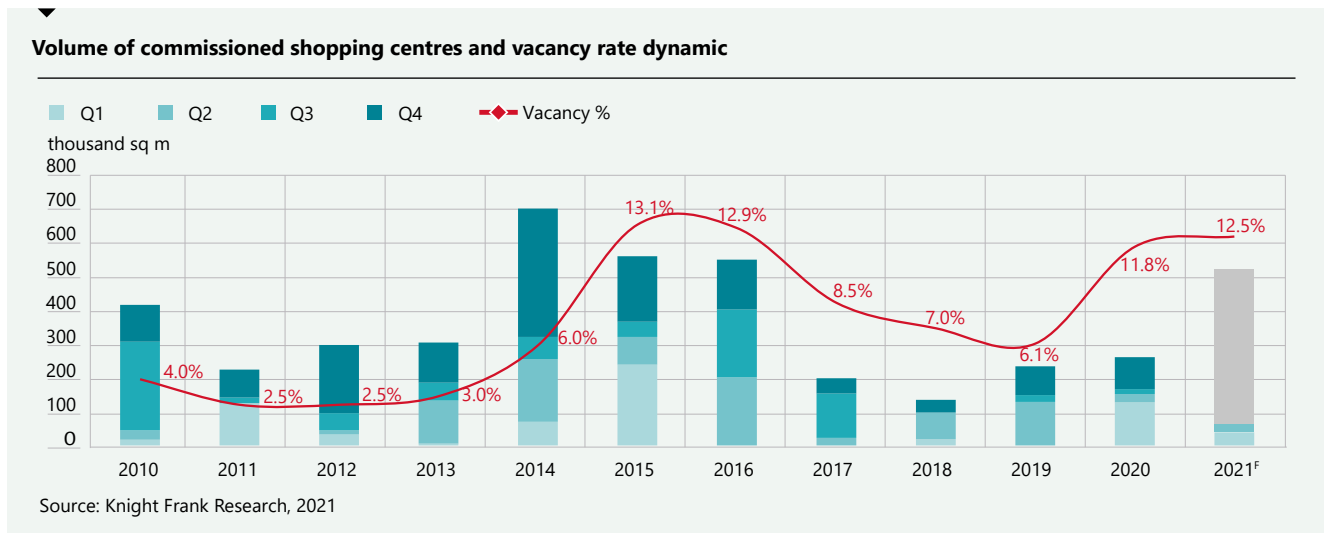
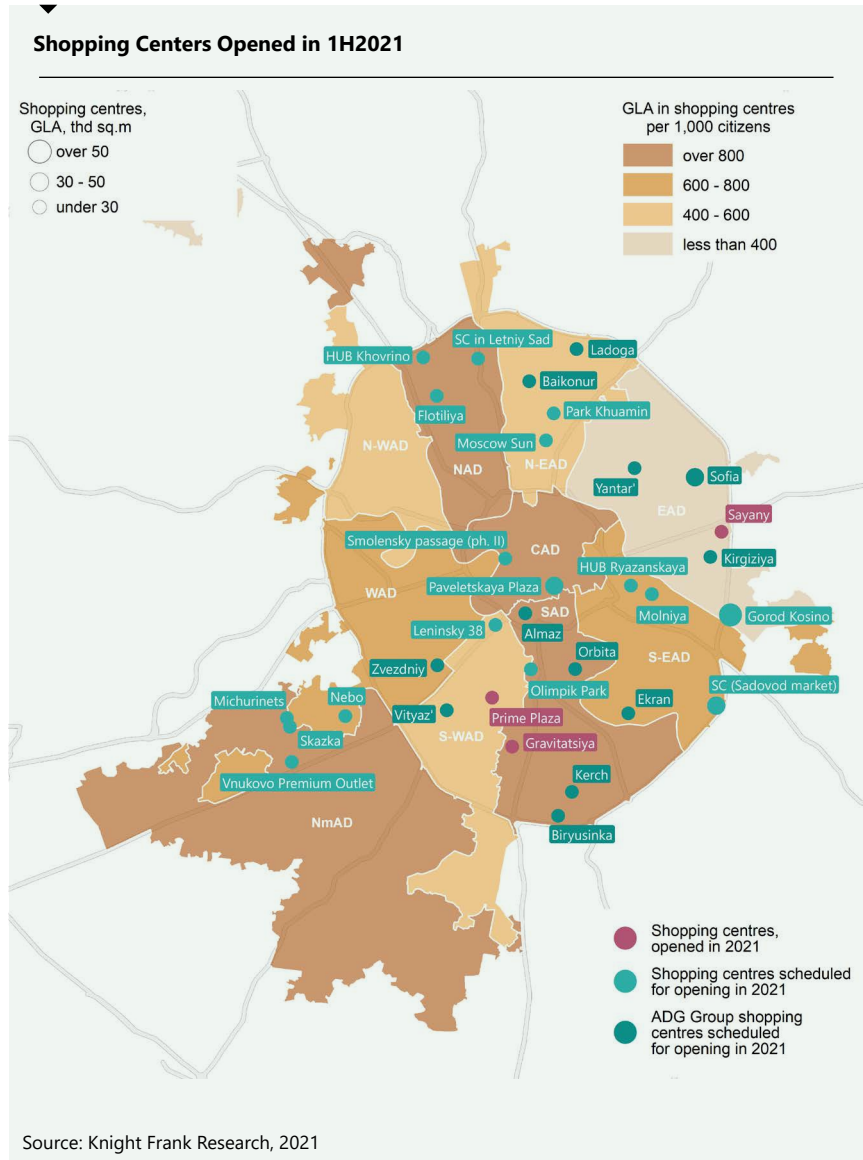
In total, 64.5 thousand sq m were commissioned in the first half of 2021, which is 60% less, than in the corresponding period of 2020, when 152.5 thousand sq m of the gross leasable area were commissioned.

The increase was provided by opening of the shopping center «Gravitatsiya» (GLA 18.5 thousand sq m) and Prime Plaza SC (GLA 20 thousand sq m), «Sayany» SC (GLA 3 thousand sq m), «Flotiliya» SC (GLA 23 thousand sq m).

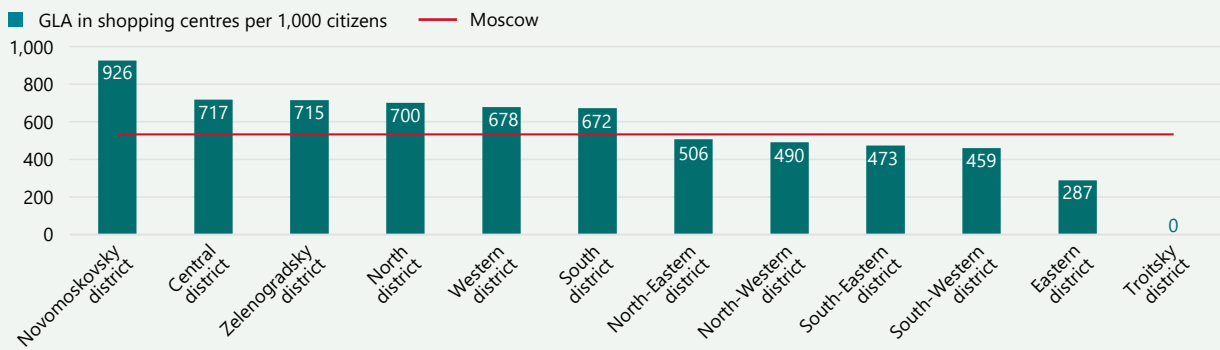
Taking into account the new volume of commissioning, the indicator of the provision of Moscow residents with high-quality retail space has not changed and is 532.2 sq m per 1,000 people.

According to this indicator, Moscow came in fourth place among the cities with million-plus population ahead of St. Petersburg, after Yekaterinburg, Samara, Nizhny Novgorod.

In the context of the administrative districts of «old Moscow», the most affluent are the Central, Southern and Northern districts. Novomoskovsky district is the leader in terms of security (926 sq.m/1,000 people), due to the small population (274,170 people). In the perspective of the next three to five years, a significant increase in the population is expected due to the commissioning of a large volume of housing against the background of low intensity of the commissioning of shopping centers and, as a result, a decrease in the security index to 750-850 sq m/1,000 people. The Troitsky administrative district with zero index is the least provided with high-quality retail area.



GLA in quality shopping centres per 1,000 citizens, sq.m



Source: Knight Frank Research, 2021

Vacancy

The vacancy rate in shopping centers in Moscow increased by 2.5% compared to the first half of 2020 and amounted to 12.5%, compared to the previous half of the year, the indicator practically did not change. The increase in the part of available areas is due to the optimization of stores at retailers that were strongly affected by the pandemic.

The vacancy rate in most of the facilities opened in 2020 is high (up to 40%), which corresponds to the trend of the recent years – the launch of shopping centers with a large part of vacant areas and their active filling during the first two years of operation.

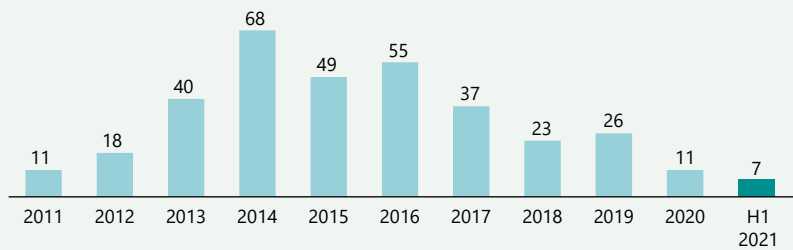
Brands

Weak activity on the part of international operators remains in the structure of demand. This year, 7 new brands have entered the Russian market, 6 during the same period in 2020. It is worth noting that only one brand has opened in the format of a classic store in the shopping center – Ecco Kids. 3 brands have opened retail stores in the street-retail format, 3 brands in the corner format.

The new retailers are represented by the profile «Apparel/Footwear/Lingerie», «perfumes and cosmetics» and «Children's goods», except for Zara Beauty, all brands operate in the «Upper middle» segment.

The policy of expansion of international brands is strongly influenced by the global situation with the pandemic (the continuation of lockdowns in many

Dynamics of new international operators entering the Russian market over the past 10 years



Source: Knight Frank Research, 2021

International retailers entered the Russian market in H1 2021

	Brand / Retail operator	Country of brand origin	Profile	Price category
1	Shikkosa	Italy	Apparel/Footwear/Lingerie	Upper middle
2	Ecco Kids	Denmark	Children's goods	Upper middle
3	Zara Beauty	Spain	Perfume and cosmetics	Middle
4	Byredo	Sweden	Perfume and cosmetics	Upper middle
5	The Frankie Shop	USA	Apparel/Footwear/Lingerie	Premium
6	Bernadette	Belgia	Apparel/Footwear/Lingerie	Premium
7	Fashion Baby	France	Children's goods	Premium

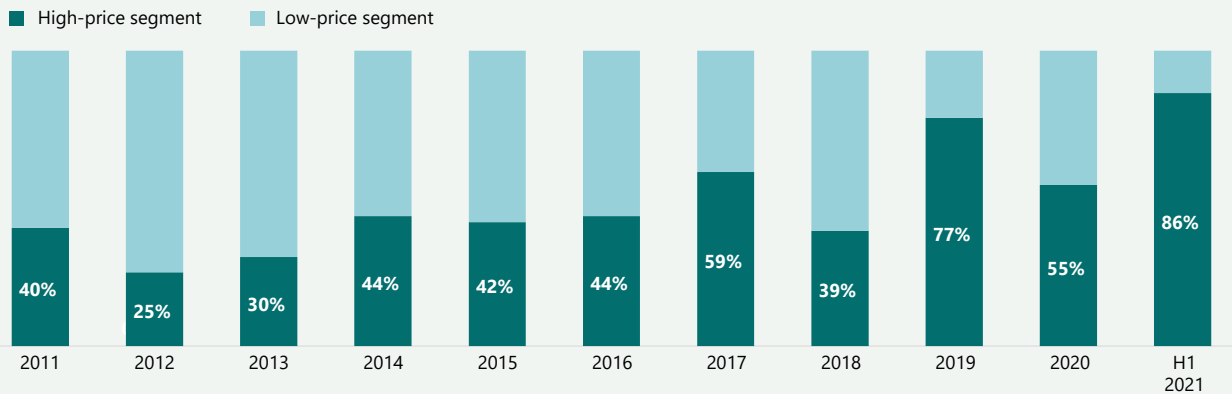
Source: Knight Frank Research, 2021

countries), which also affects the financial capabilities of brands and, as a result, expansion plans: the main strategy remains the optimization of retail outlets and the reorganization of retail spaces taking into account new consumer requests. The update

of trade formats was announced by such major retailers as Inditex and H&M, Teddy Group, Adidas, etc.

Nevertheless, the «first signs» of the recovery of the Russian fashion market have been noted: many brands of Russian designers

The structure of brands entered the Russian market over the past 10 years, by price segment



Source: Knight Frank Research, 2021

have resumed development, including the post post scriptum brand, which plans to open about 5 new outlets, a store of the Yekaterinburg underwear brand Belle You has opened, H&M holding continues the development of the Weekday and Monki brands announced in 2020, the opening of a new Stockmann department store has been announced, although the company previously suspended development plans. It is worth noting the opening of the first foreign store of the Russian brand Choupette in the UAE.

The opening of the first restaurant of the Belgian Beer Café chain, the offline Arket store of the H&M group, of the American pizza chain Little Caesars have been announced for 2021.

Commercial Terms

In the first half of 2021, the level of rental rates for retail premises in the shopping center remained at the same price range compared to the same period last year, when they decreased by 25% relatively to the limits of the base rental rate ranges for anchor tenants and operators of a shopping gallery with a small area of premises.

The maximum base rental rates, despite a certain decrease, are typical for premises in the food court area and for «island» trade in existing projects with high traffic and can reach 120 thousand rubles/sq m / year. Minimum rental rates are set for premises with an area of more than 2,000 sq m for anchor tenants.

Rental rates in Moscow shopping centres

Profile	Fixed rental rate, RUB/sq m/year*	The share paid based on turnover, %
Hypermarket (>7,000 sq m)	0–8,000	1,5–4
DIY (>5,000 sq m)	0–6,000	4–6
Supermarket (1,000–2,000 sq m)	8,000–18,000	4–7
Supermarket (450–900 sq m)	18,000–35,000	5–7
Household goods (<1,500 sq m)	0–10,000	6–8
Household appliances and electronics (1,200–1,800 sq m)	6,000–15,000	2.5–5
Sports goods (1,200–1,800 sq m)	6,000–12,000	5–8
Children's goods (1,200–2,000 sq m)	6,000–12,000	7–9
Operators of the shopping gallery:		
Anchors 1,000 sq m	0–12,000	4–10
Mini-anchors 700–1,000 sq m	0–14,000	6–10
Mini-anchors 500–700 sq m	0–16,000	6–10
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	45,000–100,000	10–14
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	8–10
Public catering:		
Food-court	45,000–120,000	10–15
Cafes	15,000–90,000	12–14
Restaurants	0–25,000	10–12

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

Source: Knight Frank Research, 2021

It is worth noting that, in addition to the direct negative impact of pandemic measures, the weakening of the ruble, the volatility of the exchange rate, the introduction of labeling and online cash registers, the growth of additional costs-delivery for online orders, antiseptics and masks for offline outlets – leave their mark on the financial indicators of most retailers.

Trends

In the first quarter of 2021, an improvement in the performance of retailers and developers was recorded, despite the slow recovery of traffic in shopping centers, there was an increase in the conversion rate and turnover in the range of 10-20%, which is due to both the behavior of buyers and the work of brands to update their outlets and their active introduction of digital technologies. However, for several weeks during June-July, additional restrictive measures were obligatory for public catering and entertainment facilities which negatively affected the recovery of indicators. Due to the requirement to vaccinate at least 60% of employees, most retailers are afraid of problems associated with a shortage of staff.

Forecast

According to the announced plans of developers, the volume of new commissioning in Moscow by the end

of 2021 is about 500 thousand sq m of retail areas. Thus, the forecast of the new supply of shopping centers is twice as much as last year's figure.

In 2021, such large shopping facilities as the shopping center «Gorod Kosino» (GLA 72 thousand sq m), the shopping center on the site of the market «Sadovod» (GLA 50 thousand sq m), the shopping center «Paveletskaya Plaza» (GLA 35 thousand sq m) are announced for opening.

There is a possibility of adjusting the commissioning date of 30–40% of new shopping centers announced for opening in 2021. However, the reduction in completions will not be significant, since certain facilities are already at a high readiness level, and it is unprofitable for developers to postpone the commissioning date at the final stage of the project. There is a possibility of adjusting the commissioning date of certain facilities, but in any case, all the announced shopping centers will enter the market in the next five years.

In addition to community centers, the new retail supply in Moscow for the coming years will be based on Transport Interchange Hubs. The city attracts investors through tenders for certain projects and is ready to work by itself on others. To date, investors have joined the projects of 15 transport interchange hubs, most of which comprise a retail purpose. The construction of shopping centers was announced as part of «Vykhino» Hub (GLA of 70,000 sq m.), «Seligerskaya» (GBA of 145,000

sq m.) and «Park Pobedy» (GBA of 237,000 sq m.) by «Tashir», «Botanika Mall» SC at «Botanichesky Sad» Hub (GLA of 27,000 sq m.), and «Discovery» SC at «Khovrino» Transport Interchange Hub (GBA of 25,000 sq m.). The affiliate of «Kievskaya Ploschad» developer applied for an investment package for «Nagatinskaya» Transport Interchange Hub; 3S Development acquired the rights to 99% of «Nekrasovka» and «Klenovy Bulvar» Hubs, which will include the construction of the mixed-use complex. The implementation of the announced projects is scheduled for 2021–2024.

The following shopping center projects have been announced: the «Chkalov» SEC (GLA / GBA of 45,000 sq m / 60,000 sq m), Estate Mall (GBA of 10,400 sq m) in Novorizhskoe highway; the start of construction was announced for «Prokshino» mixed-use complex of the Safmar Group (GBA 332,000 sq m). The increase in retail space is planned in the Novomoskovsk district due to concepts of a smaller property: a shopping centre with an area of about 13,000 sq m will be built in Kommunarka with parking on the accessible roof and a shopping center with an area of about 12 thousand sq m. is under construction in Novye Vatutinki.

Ingka Centers company presented renovation programs for two Moscow objects: «MEGA Teply Stan» and «MEGA Belaya Dacha» shopping centers.

The recovery of the SCs traffic in Russia to the pre-crisis level can be expected no earlier than Q1 2022, and in some

Trends Shaped by 2020 Factors:

- ♦ **“all in the same boat”:** establishing communication between developers and retailers to find a solution to overcome hard times;
- ♦ **support your locals:** a trend with European roots to support local

trade through purchases by residents of nearby houses. This trend expressed itself in the metropolis in the support of eating establishments (including through delivery) and small specialized grocery stores;

- ♦ **collaborations:** various types of partnerships, especially within the specifics of integrating the O2O environment, i.e. connecting retailers to marketplaces, partnerships with delivery services, etc.

segments, for example, entertainment centers and cinemas, no earlier than the end of 1H 2022. Firstly, certain restrictions associated with the virus containment will physically reduce the “throughput” of the facilities. Secondly, shopping capacity will change: this is natural caution following the past months, shopping capacity reduction, and a switch to e-commerce.

In conditions of the current epidemic and economic situation, the vacancy rate is forecast to grow up to 12.5–13% by the end of the year, provided the lifting of restrictions on the operation of retail real estate was final, and no measures will be re-imposed. Further development of the retail real estate market will be formed subject to the following factors:

- ♦ New construction slowdown.
- ♦ Further changes in the areas and formats of retail facilities.
- ♦ Increased share of social, cultural, educational, sports and recreational functions in the SCs tenant mix.
- ♦ Greater integration of online and offline retail. Using new technologies as well as new sales and promotion channels.
- ♦ Decreasing the retail space areas.
- ♦ Increased supply of services and new customer care tools.
- ♦ Change in consumer behaviour.

Major shopping centres which will be opened by the end of 2021

Name	Address	GBA	GLA
Gorod Kosino SEC	Novoukhtomskoye Hwy, 2A	127,000	72,000
SC (former Sadovod market, phase I)	MKAD, 14 km	70,000	50,000
Paveletskaya Plaza	Paveletskaya sq, bld. 2	73,000	35,000
Nebo	Aviatorov, 5	50,000	27,000
SC (housing Letniy Sad)	Dmitrovskoe Hwy, 107	35,000	21,000
Huamin Park	Vilgelma Pika Street., 14	100,000	20,000
Smolenskiy passazh (phase II)	Smolenskaya Sq., 7-9	58,437	19,647
Rasskazovka HUB (Skazka)	Borovskoye Hwy. / Korneya Chukovskogo St.	29,000	18,608
Discovery SC	Dybenko	25,000	15,000
Molniya	Ryazanskiy Ave. within Kvartaly 21/19 RC	18,450	14,020
Ryazanskaya HUB	Nizhegorodskaya St.	20,000	14,000
Vnukovo Premium Outlet	Lapshinka Village	17,000	11,900
Olimpik Park	Elektrolitnyy Passage, 3B	20,000	11,000
Leninsky 38	Leninsky Prospekt, 38	10,000	8,000
Michurinets	Samuila Marshaka / Anna Akhmatova St	22,000	8,000
SC on Aviakonstruktor Milya St.	Aviakonstruktor Milya St.	11,000	7,700
Solntsevo	Bogdanova 19	7,274	4,655

ADG Group

Name	Address	GBA	GLA
Sofiya	Sirenevyy Blvd., 31	62,070	35,513
Kirgiziya	Zelenyy Ave., 81	26,147	13,592
Vityaz'	Miklukho-Maklaya st. 27a	16,650	12,197
Baykonur	Dekabristov St., 17	13,454	9,541
Kerch	Biryulevskaya st., 17	12,606	9,264
Yantar	Otkrytoe highway, 4	12,613	8,536
Ekran	Novocherkasskiy Blvd, 21A	8,863	6,167
Orbita	Andropova av., 27	9,066	5,958
Zvezdnyy	Bogdanova st., 19	6,343	5,288
Ladoga	Shirokaya street, 12	6,865	4,806
Biryusinka	Bulatnikovskaya St., 9A	7,032	4,644
Almaz	Shabolovka St., 56	5,591	3,878

Source: Knight Frank Research, 2021



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