

RESEARCH



2018  
**RETAIL MARKET  
REPORT**  
Moscow



Evgenia Khakberdieva

Shopping Mall Leasing Director,  
Knight Frank

"2018 will make it into the history of the retail property market as a year of intensified trends of former years as well as the time of creating a basis for a new round of development for the market of shopping malls. The scarce new commissioning of shopping malls along with the low-level investment activity and the loss of interest of western brands to Russia are giving a boost to the domestic market, the development of new concepts as well as reconsidering current approaches to the construction of shopping malls and tenant formats. We expect to see new and interesting concepts as soon as 2019 – those from IKEA, Lamoda and others, to hear about different formats of Paveletskaya Square and Kapitoliy Maryina Roshcha, and welcome to the market new Asian brands from Korea, Japan, China, etc."

## RETAIL MARKET REPORT MOSCOW

### Key indicators. Shopping centres\*. Dynamics

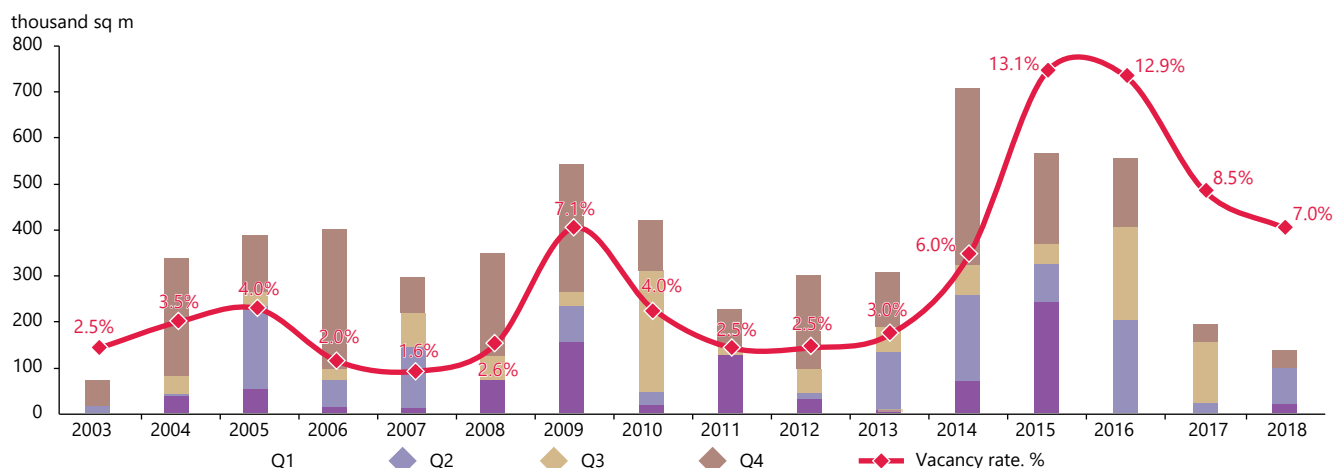
Shopping centres stock (GBA / GLA), million sq m	12.4 / 6.37
Opened in 2017 (GBA / GLA), thousand sq m	319.3 / 135.1
Scheduled for opening in 2018 (GBA / GLA), thousand sq m	≈877.6 / ≈348.7
Vacancy rate, %	7.0 (1.5 p. p. ▼)**
Fixed rent in Moscow shopping malls:	
Retail gallery tenants, rub./ sq m/year	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, sq m	509.5

\* The table shows the indicators of quality professional retail properties. A professional shopping centre is one or a group of architecturally matched buildings with a total area of more than 5,000 sq m, united by a common concept and unified management

\*\* Change against the beginning of 2018.

Source: Knight Frank Research, 2019

### Volume of opened shopping centres and vacancy rate dynamics



Source: Knight Frank Research, 2019

## HIGHLIGHTS

- ♦ As many as 135,100 sq m of retail property were commissioned in 2018, which is the lowest figure for the past 10 years.
- ♦ As the new commissioning decreases the vacant premises are getting filled by tenants quite rapidly: the final vacancy rate, which amounted to 8.5% in the end of 2017, now stands at not more than 7.0%.
- ♦ The vacancy rate in super regional malls of more than 120,000 sq m in area amounts to about 3% of property GLA. Meanwhile, the vacancy in major shopping centres opened more than two years ago amounts to 5.7%.
- ♦ Renovation is currently in focus: major developers redevelop and reconceptualize their properties, among them Fort Group who performed the rebranding of Golden Babylons. Enka company: the opening of Kashirskaya Plaza and the further plans of the company include the redevelopment of Kapitoliy SC. Tashir company renovated RIO SC and announced the construction of phase II of Gagarinskiy SEC focusing on the entertaining component (movie theater and family entertainment zone).
- ♦ XL Shopping Centre will be repositioned as an outlet. LOTTE Plaza Shopping Centre is to be remodeled into a multi-purpose complex with no shopping component.
- ♦ New shopping centres tend to become smaller. The shopping malls that came to the market in 2018 are properties with GLA of not more than 20,000 sq m, except only one property, namely Kashirskaya Plaza Shopping and Entertainment Centre (GLA – 70,299 sq m).
- ♦ Twenty-two international developers came to the market of Russia in 2018. That is 40% less than last year's figure (37 new retailers).
- ♦ As of 2018, the structure of distribution of new brands by profile matches the trends of former years. Thus, 41% (nine out of 22) new operators refer to the sector of Apparel/Footwear/Lingerie.
- ♦ Last year, 41% of the operators new to the Russian market, were positioned in the high price category. A year before that, they accounted for 59% of the total number. Half of them are fashion retailers, while the remaining categories of the sector include only one brand each. The medium price category is represented by the profiles Apparel/Footwear/Lingerie and Goods for Children, each of which has the share of 31%. The category Perfume and Make-Up includes two brands, taking up the share of 15%.
- ♦ Twelve retailers made announcements about leaving Russia in 2018. Among such there were Castorama (DIY, the UK), MediaMarkt (the German electronics and home appliances chain), Crate&Barrel (the American furniture and home goods chain), as well as Claire's (the American accessories and fashion jewelry chain), Lillapoix (drogerie), Nautica, Oxette, Jennyfer, Motivi (fashion retail), such sporting brands as The Athlete's Foot and Intersport, and GNC (sport nutrition).
- ♦ Pop-up stores, which are short-term sales spaces, are gaining popularity. Meanwhile, not only premium brands were using flash retail in 2018, but also some brands that address a wider audience such as Louis Vuitton, Chanel, Gucci, YSL, Prada, Samsung, Adidas, and Uniqlo. As a response to such a popularity of the format, a flexible retail platform We Are Pop-Up launched in November in Russia.
- ♦ There is also a trend of major retailers developing smaller formats. Thus, IKEA launched shops of not more than 6,000 sq m in area. Leroy Merlin and OBI are working on smaller format platforms; M.Video launched M.Mobile services; Decathlon is opening stores of 300-400 sq m in area. Such food retail chains as Okay, Lenta, and Karusel are abandoning the classic format of large hypermarkets while preferring to develop smaller stores of 3,000-7,000 sq m in area.
- ♦ There is an ongoing consolidation of retail chains:
  - X5 Retail Group acquired 99 Polushka stores.
  - Lenta finalized the transactions announced in the end of 2017 including 11 Finnish hypermarkets Kesko, 22 supermarkets of a Siberian chain Holliday, and 15 hypermarkets Sedmoy Kontinent.
  - The merger of M.Video with Eldorado, the purchase of MediaMarkt Russia.
  - The purchase of K-rauta by Leroy Merlin.



Kashirskaya Plaza



## Supply

Based on results of the 2018, six properties entered the Moscow market of high-quality retail property, with the cumulative GLA amounting to 135,100 sq m, which is the market low for the past 10 years.

Kashirskaya Plaza SEC (GLA – 70,200 sq m, GBA – almost 195,500 sq m) has become the largest property of 2018. It is the second redesigned project by Enka on the Moscow market.

New shopping centres tend to become smaller. Thus, the shopping malls that came to the market in 2018 are properties with GLA don't exceed 20,000 sq m, except only one property - Kashirskaya Plaza SEC (GLA – 70,299 sq m). The trend of reducing the average area of new properties emerged in the beginning of 2017, while the average area of the shopping centres entering the market in earlier 2014-2016 was twice as big and amounted to about 40,000 sq m. The trend is also due to the crisis of 2015, as the construction of large-scale properties carries higher risks as compared to the projects of neighborhood level.

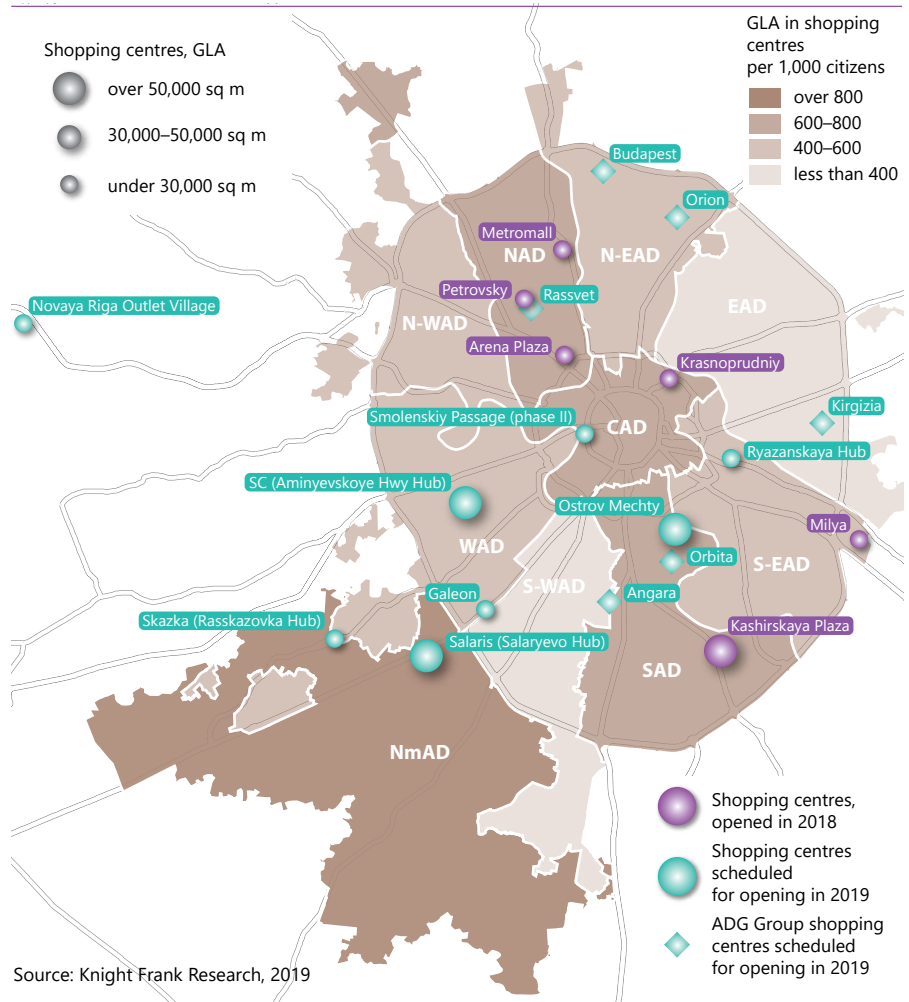
It is worth mentioning that LOTTE Plaza Shopping Centre went off the market to be remodeled into a multi-purpose complex with no shopping component.

Due to the high level local competition, XL Shopping Centre was announced to be repositioned as an outlet centre.

Some major developers continue their campaign on reconstruction and redevelopment of existing retail properties in order to extend their lifecycle and attract new customers. Thus, Fort Group company started to rebrand Golden Babylons, which will share the name Europolis upon renewal. Kashirskaya Plaza Shopping and Entertainment Centre (GLA – 70,200 sq m) was opened by Enka company. It is the second largest shopping centre redevelopment project in Russia since Kuntsevo Plaza in 2017. The further plans of the company include the redevelopment of Kapitoliy Shopping Centres in Belyaev, on Vernadskiy Avenue, and in Maryina Roshcha.

Mozaika SEC and MARI SEC are going through a reconceptualization in a 'mild mode', i.e. without interrupting the work of tenants. The construction of phase II of Gagarinskiy Shopping and Entertainment Centre has been announced (GBA of phase II – 36,300 sq m), which is focusing on the entertaining component (movie theater and family entertainment zone). The renovation didn't leave out RIO shopping centres by Tashir, too.

### Shopping centres opened in 2018. Largest shopping centres scheduled for opening in 2019



### Shopping centres opened in 2018

Object	Address	GBA, sq m	GLA, sq m
<b>Q1</b>			
Milya	7 Aviakonstruktora Milya	38,000	18,765
<b>Q2</b>			
Kashirskaya Plaza	61 Kashirskoye Hwy, building 2	195,500	70,200
Petrovskiy	Novopetrovskaya St, prop. 6	20,982	8,500
<b>Q3</b>			
–	–	–	–
<b>Q4</b>			
Metromall	73 Dmitrovskoe Hwy	14,795	10,586
Arena Plaza	36 Leningradskoye Ave	30,000	17,180
Krasnoprudniy	13 Krasnoprudnaya St, building A	20,000	9,899

### Shopping malls that went off the market in 2018

Object	Address	GBA, sq m	GLA, sq m
LOTTE Plaza	8 Novinskiy Blvd	23,120	18,130

Source: Knight Frank Research, 2019

## Demand

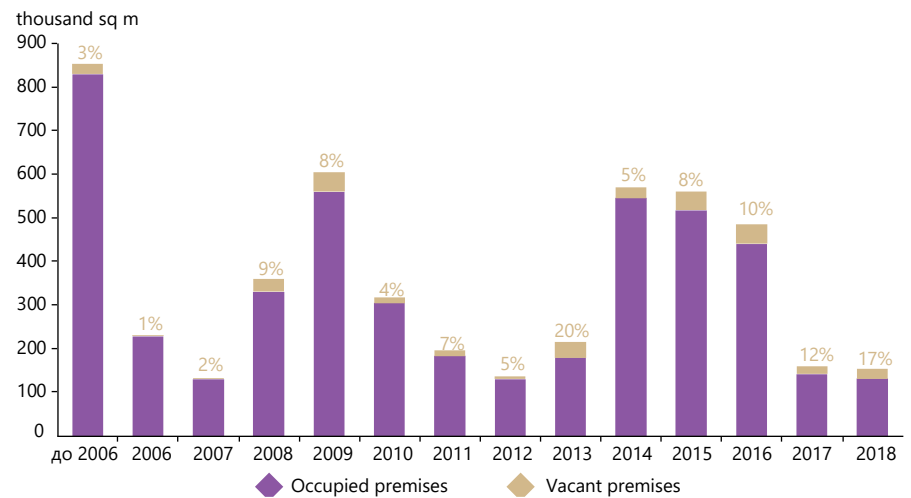
As the new commissioning decreases the vacant premises are getting filled by tenants quite rapidly. The vacancy rate, which amounted to 8.5% in the end of 2017, went down to 7.0% by the end of 2018.

The largest volume of vacant premises was recorded in properties that came into the market in 2013. Currently, each fifth square meter remains vacant here. Recall that the following shopping centres were opened in 2013: Raykin Plaza, Gudzon, RIO Leninskiy, and VDNKh. The rental campaign in these objects is still underway.

The high level of vacancy in the properties opened in 2018 is largely due to a significant volume of available premises in Metromall Shopping Centre (the vacancy rate is 42%), and in Arena Plaza Shopping Centre (the vacancy rate is 81%).

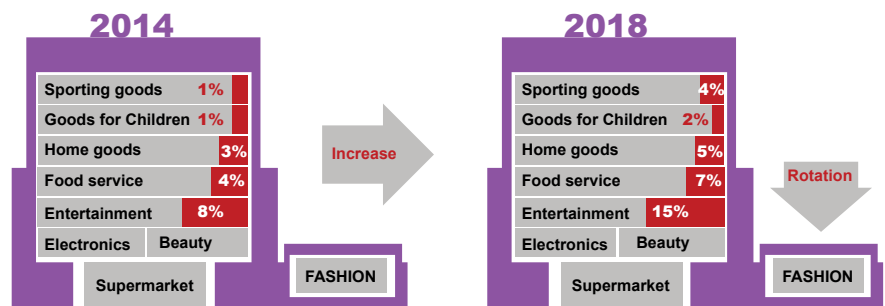
The vacancy rate of super regional shopping centres (of over 120,000 sq m in area) amounts to about 3% of property GLA. Meanwhile, the vacancy in major shopping centres opened more than two years ago amounts to 5.7%. The decrease in vacancy rates of large-scale shopping centres is due to the development policy that aims at attracting flagman retailers and new interesting operators. The properties are going through inner transformation, i.e. the entertainment zones grow in area, food halls are being set up, and there is a general focus on retailtainment.

Vacancy rate in retail facilities opened in different years



Source: Knight Frank Research, 2019

Changes in the structure of tenants of SEC

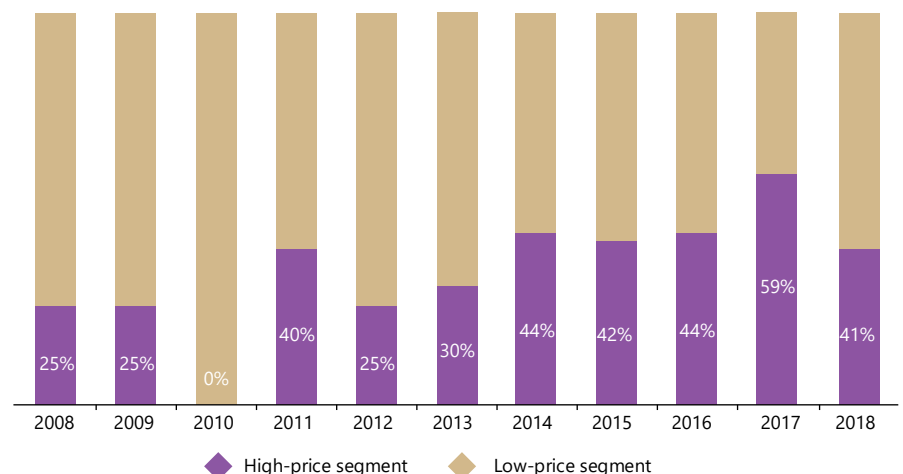


Source: Knight Frank Research, 2019

## International retailers

In total, there were 22 international retailers who came to the Russian market in 2018. That is 40% less than in 2017, when 37 retailers brought their projects. The new brand entry figures of 2018 are remarkably lower than those of 2013, which was far from being a successful year in terms of market activity. Forty new international operators came to Russia back then. Last year, 41% of the operators new to the Russian market, were positioned in the high-price segment. A year before that, they accounted for 59% of the total number. Half of them are fashion retailers (Billionaire, Adolfo Dominguez, Dirk Bikkembergs, Karl Lagerfeld, and Liu Jo), while the remaining segments of the sector include only one brand each. The medium price category is represented by the profiles Apparel/Footwear/Lingerie and Goods for Children, having the share

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



Source: Knight Frank Research, 2019

of 31% each. The category Perfume and Make-Up includes two brands, taking up the share of 15%.

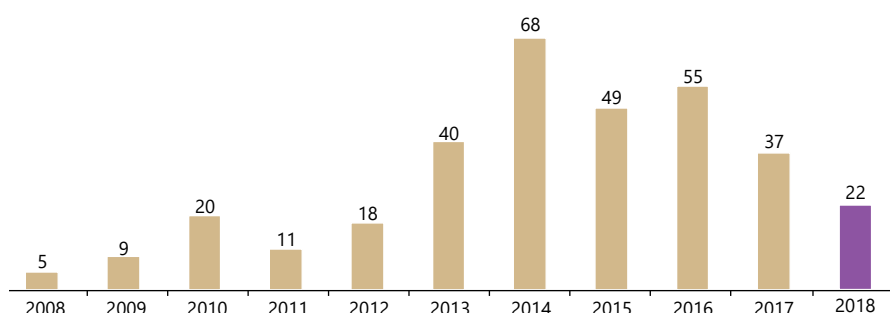
The following newcomers are worth specific attention:

- ♦ an Italian brand GEOX that opened its first store of GEOX Kids retail chain in Spring 2018. Inspired by the impressive results of the first store of such format, the chain is planning its rapid development in 2019-2020, which includes the expansion into the regions of Russia.
- ♦ a retail store Tommy Jeans of an international holding Tommy Hilfiger, which is equipped with a huge number of new technology features (selfie-mirror, iPads listing goods in stock, etc.).

As of 2018, the structure of distribution of new brands by profile matches the trends of former years. Thus, 41% (nine out of 22) new operators refer to the sector of Apparel/Footwear/Lingerie and to both medium and above average pricing categories. Thus, Apparel/Footwear/Lingerie became the leader sector among all new operators having entered the Russian market in 2018.

In regard to other segments, it is worth mentioning the growth in the share of Goods for Children (23% in 2018 against

Volume of new international retailers opened in 2008-2018



Source: Knight Frank Research, 2019

11% in 2017) and accessories (9% against 5%). Make-up/Perfume demonstrated an insignificant growth (9% against 8% a year before), while the rest of the profiles are presented in equal shares and fall back quite considerably in numbers as compared with the leader segment. Thus, only one operator per each of the sectors Hardware/Electronics, Food service, Pet Goods, and Furniture/Interior came to the market.

Italy and the USA are the countries of origin for 35% of all brands new to the market in 2018, which keeps up the trend of 2016-2017.

Over the past year several large retailers made announcements about leaving Russia. Among such there were Castorama (DIY, the UK), MediaMarkt (the German electronics and home appliances chain), Crate&Barrel (the American furniture and home goods chain), as well as Claire's (the American accessories and fashion jewelry chain). Auchan announced the closure of its drogerie chain Lillapoix. Such Swiss sporting brands as The Athlete's Foot and Intersport are getting closed as well. An Italian holding Miroglio Group terminates the activity of the Motivi brand in the territory of the Russian Federation. GNC, a sport nutrition chain, closed its points of

International retailers, opened its first store in Moscow in 2018

Nº	Brand / Retail operator	Country of brand origin	Profile	Price category
1	Billionaire	Italy	Apparel/Footwear/Lingerie	Premium
2	Coach	USA	Accessories	Premium
3	That's Living	USA	Furniture/Interior	Premium
4	Haier	China	Hardware/Electronics	Premium / Above average
5	Adolfo Dominguez	Spain	Apparel/Footwear/Lingerie	Above average
6	Dirk Bikkembergs	Germany	Apparel/Footwear/Lingerie	Above average
7	Karl Lagerfeld	France	Apparel/Footwear/Lingerie	Above average
8	Liu Jo	Italy	Apparel/Footwear/Lingerie	Above average
9	NaturaPura	Portugal	Goods for Children	Above average
10	Coccodrillo	Poland	Goods for Children	Medium
11	COS	Sweden	Apparel/Footwear/Lingerie	Medium
12	Dino Zoo	Czech Republic	Pet goods	Medium
13	Flormar	Turkey	Make-up/Perfume	Medium
14	GEOX Kids	Italy	Goods for Children	Medium
15	Hunkemoller	Netherlands	Apparel/Footwear/Lingerie	Medium
16	Lipault	France	Accessories	Medium
17	Modern Easy Kids	Italy	Goods for Children	Medium
18	Tommy Jeans	USA	Apparel/Footwear/Lingerie	Medium
19	Dushka	Ukraine	Make-up/Perfume	Below average
20	Orsay	Germany	Apparel/Footwear/Lingerie	Below average
21	Panco	Turkey	Goods for Children	Below average
22	Panda Express	USA	Food service	Below average

Source: Knight Frank Research, 2019

sales. The stores of such brands as Nautica, Oxette, and Jennyfer are also closed. In total, 12 foreign retailers left Russia. To put that into perspective, eight foreign brands went off the Russian market in 2017, five – in 2016, 11 – in 2015, and 12 – in 2014.

## Commercial terms

As of 2018, there weren't any dramatic changes to the rental rates in shopping centres. However, some large retailers faced the lack of quality retail premises, which caused the increase in rental rates in 10%.

## Forecast

According to the plans that retail property developers announced, about 348,700 sq m of retail property will be commissioned to the Moscow market in 2019. Among the properties scheduled for opening there are such large shopping centres as Ostrov Mechty (GLA – 70,000 sq m), Salaris Multi-Functional Complex (GLA – 105,000 sq m), and a shopping centre at Aminyevskoye Highway by Tashir (GLA – 68,000 sq m). Apart from that, a fourth professional outlet centre Novaya Riga Outlet Village (GLA – 25,300 sq m) is expected to be opened.

### Rental rates in modern shopping centres

Profile		Range of basic rent rates, 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)		12,000–2,000	4–8
Home 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
Sporting goods (1,200–1,800 sq m)		6,000–12,000	6–8
Goods for Children (1,200–2,000 sq m)		6,000–16,000	7–9
Retail gallery operators:			
Anchor	more than 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 centre (2,000–4,000 sq m)	4,000–8,000	10–14
	Movie theater (2,500–5,000 sq m)	0–6,000	8–12
Food service:			
	Food courts	45,000–150,000	8–15
	Cafes	15,000–90,000	12–14
	Restaurants	0–25,000	10–12

\* Commercial terms subject to discussion during negotiations. Rent rates include no VAT and operating expenses.

Source: Knight Frank Research, 2019





## Largest shopping centres scheduled for opening in 2019

Object	Address	GBA, sq m	GLA, sq m
Salaryevo Transport Interchange Hub - Salaris	Kiyevskoye Hwy, Salaryevo village	300,000	105,000
Ostrov Mechty	Nagatinskaya Poyma	280,000	70,000
Tashir (Transport Interchange Hub at Aminyevskoye Hwy)	Aminyevskoye Hwy, prop. 15	125,000	68,000
Novaya Riga Outlet Village	Novaya Riga, Pokrovskoye village, 68 Tsentralnaya St	38,000	25,280
Skazka (Rasskazovka Transport Interchange Hub)	Borovskoye Hwy / Korneya Chukovskogo St	29,000	18,608
Ryazanskaya (Ryazanskaya Transport Interchange Hub)	Nizhegorodskaya St	20,000	14,000
Smolenskiy Passage (phase II)	Smolenskaya Sq, prop. 7-9	14,800	13,000

Source: Knight Frank Research, 2019

## Shopping centres by ADG Group

Object	Address	GBA, sq m	GLA, sq m
Angara	7 Chongarskiy Blvd	12,479	6,785
Budapest	14 Leskova St	19,103	9,736
Kirgizia	81 Zeleniy Ave	n/a	13,592
Orbita	27 Andropova Ave	n/a	5,958
Orion	26 Letchika Babushkina St	n/a	19,916
Rassvet	23 Zoyi i Aleksandra Kosmodemyanskikh St	n/a	6,460

Source: Knight Frank Research, 2019

The first properties of the neighborhood shopping centre chain by ADG Group were announced to be commissioned. Thirty-nine small shopping centres of 1,780 sq m through to 35,513 sq m in GLA are to be opened by the end of 2021.

According to Knight Frank, the vacancy rate of shopping centres is likely to grow a little to 7.7% against the backdrop of the new shopping property openings in 2019. However, the vacancy rate of stable shopping properties functioning for more than two years is set to decline.

It is possible that the rent campaign of some shopping centres will require a considerable time input and, as a result, the postponement of commissioning for future periods.

International retailers will continue to demonstrate interest in the Russian market. Retail companies from Asia will be most active – at least five new brands are expected to enter the Russian market.

For 2019, MEXX announced its return to Russia, Japanese Bape brand and Chinese Urban Reviv open their stores. One of the largest internet company Lamoda goes offline, opening its first retail store of 1,000 sq m in Atrium SC.

Retailers are expected to become more technologically advanced, reducing the gap between online and offline segments, automating routine processes and implementing the mechanisms of data protection. Gamification and lifestyle-based suggestions will be the main customer strategy.

## RESEARCH

### Olga Shirokova

Director, Russia & CIS

[Olga.Shiroкова@ru.knightfrank.com](mailto:Olga.Shiroкова@ru.knightfrank.com)

## RETAIL

### Evgenia Khakberdieva

Shopping Mall Leasing Director

[evgenia.khakberdieva@ru.knightfrank.com](mailto:evgenia.khakberdieva@ru.knightfrank.com)

+7 (495) 981 0000

[KnightFrank.ru](http://KnightFrank.ru)



© 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.



Kirgizia, ADG Group