

RESEARCH



H1 2018 RETAIL MARKET REPORT Moscow

HIGHLIGHTS

Based on results of the first half of 2018 in Moscow three shopping centres were commissioned with total leasable area of 97,500 sq m.

The dynamics of decrease of the share of vacant areas remains stable. During the first half of the year the vacancy rate in the shopping centres of the capital decreased by 0.8% and amounts to 7.7%.

Low activity of international retailers is observed: 13 new brands have entered the market, which is 1.5 times less than half the number of openings compared to the same period in 2017.

Lease rates for commercial premises in shopping centres in the capital didn't change significantly and overall remained at the same level.



Evgenia Khakberdieva
Shopping Mall Leasing Director,
Knight Frank

"The first half of 2018 was marked by relative stability on the market of shopping spaces. The most important event of this period was the commissioning of the shopping centre "Kashirskaya Plaza", which opened with high occupancy rate not only by area but also by number of stores. We are very glad that we were directly involved in this event and helped to occupy the maximum volume of area in this project. We are sure that the trend of moderate development and progressive commissioning of the indicated shopping centres will remain. Demand for quality shopping projects remains as many tenants feel relatively confident and plan their further expansion".

RETAIL MARKET REPORT MOSCOW

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, %	7.7 (0.8 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	502.3

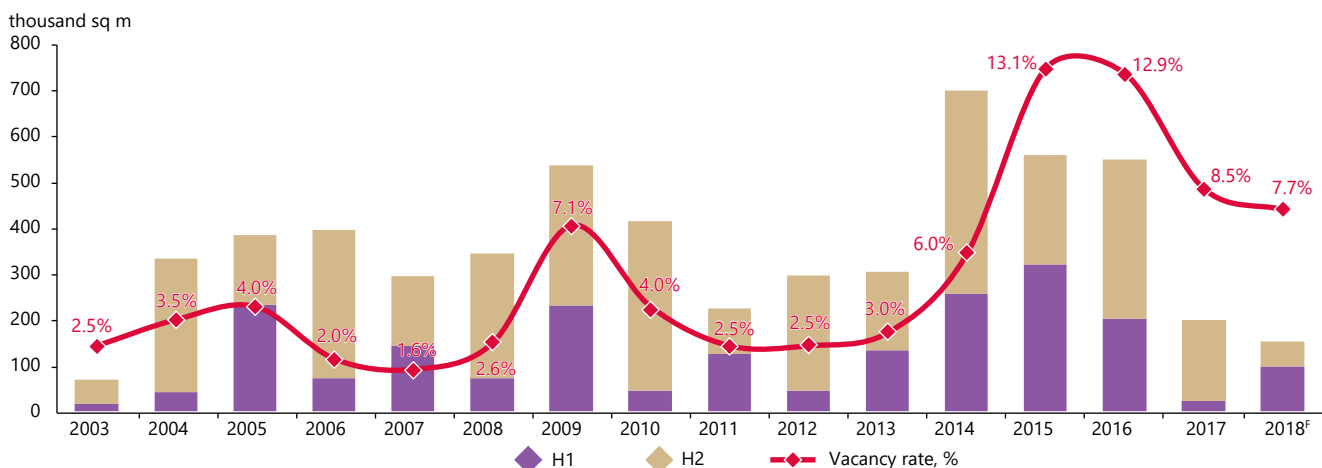
* The table refers only to high quality, professional retail properties. A shopping centre is a standalone building or a group of buildings sharing the same architectural style, concept and under common management, with a total area of more than 5,000 sq m

** 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

Based on results of the first half of 2018 in Moscow three shopping centres were commissioned with total leasable area of 97,500 sq m: "Kashirskaya Plaza" (GLA – 70,200 sq m), "Milya" (GLA – 18,800 sq m) and "Petrovsky" (GLA – 8,500 sq m). Taking into consideration the new commissioned shopping centres the overall area of quality spaces in the capital currently amounts to 12.3 million sq m (GLA – 6.3 million sq m).

As compared to the same period for the previous year the volume of retail properties coming onto the market in the capital increased by 4.5 times. For instance, during the first half of 2017 two shopping centres were commissioned ("Zeleny" and "Proletarsky") with a total leasable area of 22,000 sq m.

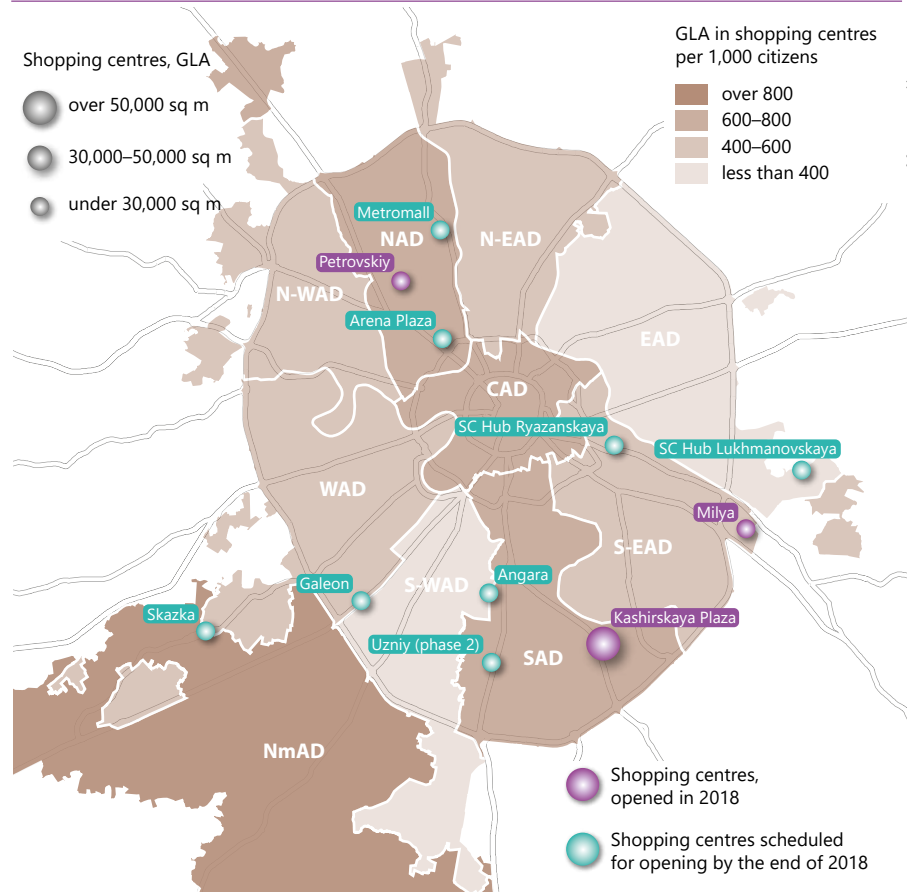
By the end of 2018 the opening of six more facilities is scheduled with the total leasable area of 87,100 sq m, the largest among which are the shopping centres "Yuzhny" (phase II, 20,000 sq m), "Skazka" (18,600 sq m) and "Arena Plaza" (17,200 sq m). All facilities scheduled for opening are located outside the third ring road.

All new shopping centres that entered the market during the first half of 2018 and scheduled for opening before the end of 2018 have a leasable area of up to 20,000 sq m, the only exception is "Kashirskaya Plaza" shopping centre (GLA – 70,200 sq m). The trend for decrease of the average area of leasable area has been noticed since the beginning of 2017, meanwhile earlier in 2014–2016 the average area of shopping centres entering the market was double the size – approx. 40,000 sq m.

Continuing the given trend of development of community-centres, in the mid-term as part of the project of ADG Group for reconstruction of Moscowcinemas, 39 facilities of the mentioned format with average leasable area of 8,500 sq m will enter the market.

Taking into consideration the new volume the indicator of availability of quality shopping areas for Moscow residents amounts to 502.4 sq m per 1,000 persons. Based on this indicator Moscow occupies the 5th place among the Russian cities with a million-plus population behind Ekaterinburg, Samara, Nizhny-Novgorod and Saint Petersburg. Broken down by administrative districts of "old Moscow" the districts with the most centres are central, south and north part of city.

Shopping centres opened in 1H 2018. Largest shopping centres scheduled for opening in 2H 2018



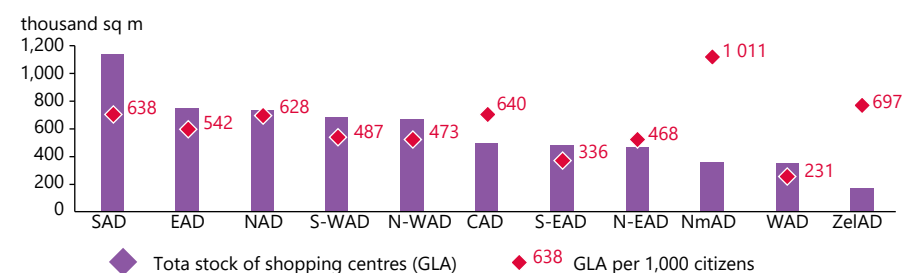
Source: Knight Frank Research, 2018

Shopping centres opened in H1 2018

Object	Address	GBA, sq m	GLA, sq m
Kashirskaya Plaza	61, Kashirskoye highway, bld. 2	195,000	70,200
Milya	Aviakonstruktora milya st., prop. 7	38,000	18,765
Petrovskiy	Novopetrovskaya st., prop. 6	20,982	8,500

Source: Knight Frank Research, 2018

Total stock of shopping centres by districts. Retail space per 1,000 citizens



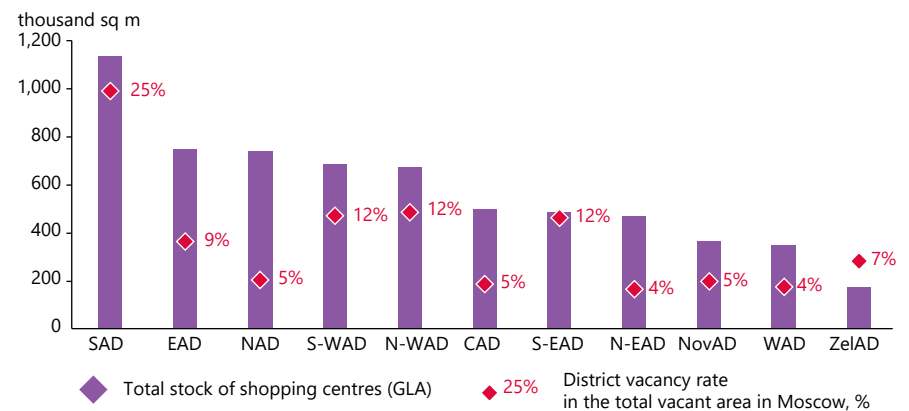
Source: Knight Frank Research, 2018

Demand

During the first half of 2018 a decrease of vacant areas was observed across the capital while the rate of vacant space remained low. For example, based on results of the first half of 2018 the rate of vacant areas in shopping centres of Moscow decreased by 0.8% compared to the same period of the previous year and amounted to 7.7%.

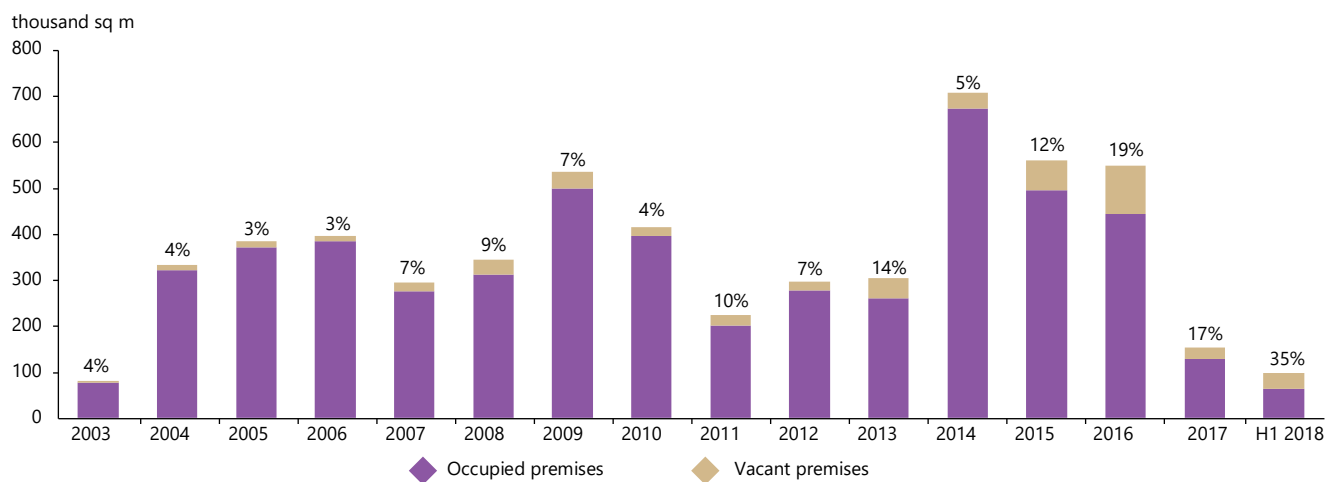
The total vacant space across shopping centres in the capital amounts to aprox. 420,000 sq m. The biggest volume of vacant space was recorded in the South administrative district: 1.1 million sq m shopping spaces available here with over

The volume of retail space and the vacancy rate in the administrative districts



Source: Knight Frank Research, 2018

Vacancy rate in retail facilities



Source: Knight Frank Research, 2018

International retailers who opened their first store in Moscow in H1 2018

	Brand	Country	Profile	Price segment
1	Adolfo Dominguez	Spain	Apparel / Footwear / Lingerie	Upper middle
2	Karl Lagerfeld	France	Apparel / Footwear / Lingerie	Upper middle
3	Liu Jo	Italy	Apparel / Footwear / Lingerie	Premium
4	Coach	USA	Accessories	Upper middle
5	Lipault	France	Accessories	Middle
6	GEOX Kids	Italy	Goods for children	Middle
7	Coccodrillo	Polish	Goods for children	Middle
8	Flormar	Turkey	Cosmetics / Perfumeriy	Middle
9	Panco	Turkey	Goods for children	Low
10	Skinfood	Korea	Cosmetics / Perfumeriy	Middle
11	Modern Easy Kids	Italy	Goods for children	Middle
12	Dushka	Ukraine	Cosmetics / Perfumeriy	Low
13	Dino Zoo	Czech Republic	Pet supplies	Middle

Source: Knight Frank Research, 2018

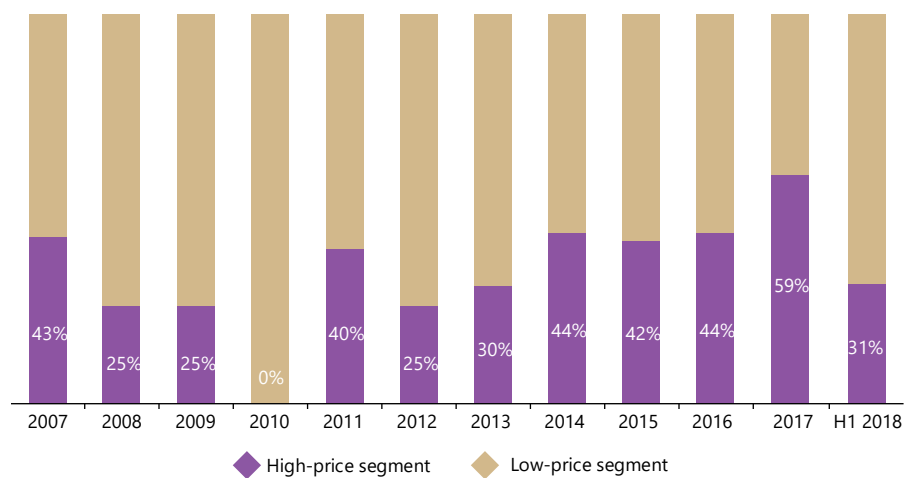
104,000 sq m of vacant space, which corresponds to 25% of the total volume of vacant areas in the capital.

Since the beginning of the year 13 new international retailers have entered the Russian market, which is 1.5 times less as compared to the same period in 2017. Among them are retailers such as GEOX Kids, Coach, as well as premium Italian brand 'Liu Jo'. As before, retailers prefer to open their flagship stores in shopping centres such as "Megapolis", "Atrium", "Evropeysky" and "Afimall city".

Since 2014 the profile structure of new brands has remained unchanged: approx. 54% of brands are positioned in the segment "clothes/footwear/underwear". However, the price bracket of new retail has changed: the share of retailers operating in the mid-range segment, based on results of the first half of 2018, amounted to over 50%. In 2017/last year retail brands with an "above average" price bracket dominated with 63%.

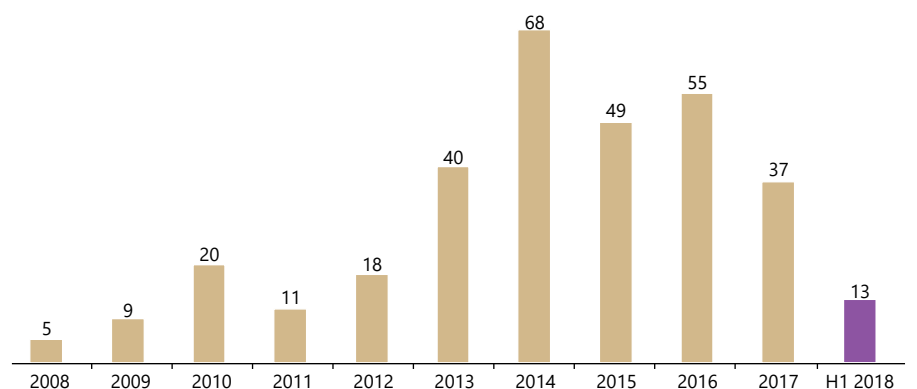
It should be noted that with the fall in international brands entering the Russian market, the brands that are already present continue to expand rapidly. For instance, during the first half of 2018 only 2 brands announced their plans to leave the Russian market - the German chain of electronics and home appliances stores MediaMarkt, the spaces of which will presumably be occupied by the stores developed by the Safmar group - M.Video or Eldorado chain of stores, as well as the American brand Claire's.

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 2007-2018



Source: Knight Frank Research, 2018



Commercial terms

During the first half of the year, there were no significant fluctuations in lease rates, however, for a number of facilities marked by high footfall, the increase of the upper limit of the lease rate and/or % of sales for some of the biggest retailers was observed.

Forecast

Taking into consideration the volume of new shopping spaces introduced to the market during the first half of 2018 and developers' plans to open several facilities, we forecast that the volume of new offers in 2018 will not exceed 150,000 sq m (GLA). This indicator will be a quarter lower as compared to the results of 2017.

The drop in the volume of new offers is the result of the crisis of 2014–2015, the current state of the consumer market and the change in the investment climate in the country. The lower offer this year is also related to rescheduling to the next year of the commissioning dates of "Ostrov Mechty" shopping centre (70,000 sq m) and phase II of "Smolensky Passage" (13,000 sq m).

Due to the limited volume of new quality offer, the vacancy rate in the capital is expected to decrease further by the end of the year. According to our forecasts, the amount of vacant areas by the end of 2018 may amount to 7.0% -7.5%.

It is expected that by the end of the year the activity of international retailers will remain low and the number of new retail brands entering the market will not exceed the same indicator for previous year, which amounts to approximately 37 brands. In this regard the entry of the Swedish retailer COS may be the most noteworthy retail opening of the year.

The new offer of the capital in the coming years will be formed mainly due to community-centres, which open as part

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	4–6
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

* Commercial conditions discussed during negotiations
 Lease rates indicated without VAT and operating expenses
 Source: Knight Frank Research, 2018

of residential complexes and after the reconstruction of conceptually obsolete facilities, as well as thanks to the shopping centres integrated into the transport hubs. For instance, among the largest shopping centre projects scheduled for opening as part of transport hubs during 2019–2022,

we can mention the following shopping centres: "Seligerskaya" (145,000 sq m), "Salaryevo" (GLA – 105,000 sq m), "Nikolaevskaya" (GLA – 94,500 sq m), "Lukhmanovskaya" (GLA – 74,800 sq m), "Nekrasovka" (GLA – 35,000 sq m) and "Park Pobedy" (GLA – 29,300 sq m).



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RESEARCH

Olga Shirokova

Director, Russia & CIS

Olga.Shirokova@ru.knightfrank.com

RETAIL

Evgenia Khakberdieva

Shopping Mall Leasing Director

evgenia.khakberdieva@ru.knightfrank.com

+7 (495) 981 0000

KnightFrank.ru