

H1 2019

RETAIL MARKET REPORT

Moscow



KEY FINDINGS:

- ♦ The supply of Moscow retail property grew by two new items that were opened in H1 2019: Salaris Shopping Center (GLA – 105,000 sq m) and Galeon Shopping Center (GLA – 14,000 sq m).
- ♦ Major developers continue their reconceptualization campaign upgrading the existing shopping centers.
- ♦ The vacancy rate grew insignificantly to 7.1% in Moscow shopping centers in H1 2019.
- ♦ New international retail operators are appearing in the Russian market at a slower rate. Only 12 new brands have entered the country in 2019 compared with 13 brands over the same period in 2018.
- ♦ The rent rates for retail premises in shopping centers haven't changed much holding on the same level as before.



Evgeniya Khakberdieva
 Director of Retail Department,
 Knight Frank

“On the one hand, H1 2019 did not have a lot of either opened or announced projects, but, on the other hand, we observed the first examples of new formats, which have been generating heightened interest on the market up to now. The largest shopping center with an integrated transport hub was opened in April - Salaris Mixed-Use Complex. There is no opening ceremony until the end of August, but even now mall is popular with both the New Moscow residents and the transit people traffic of the transport hub. Another event - opening of the first IKEA store in the city format at the end of June. Since its first day it became obvious that the format has a promising future. We are currently in the middle of the retail market transformation and it inspire significant optimism. We are sure of retail market development and eager to work on new and existing projects side-by-side with our clients.”

RETAIL MARKET REPORT MOSCOW

Key indicators. Shopping centres*. Dynamics

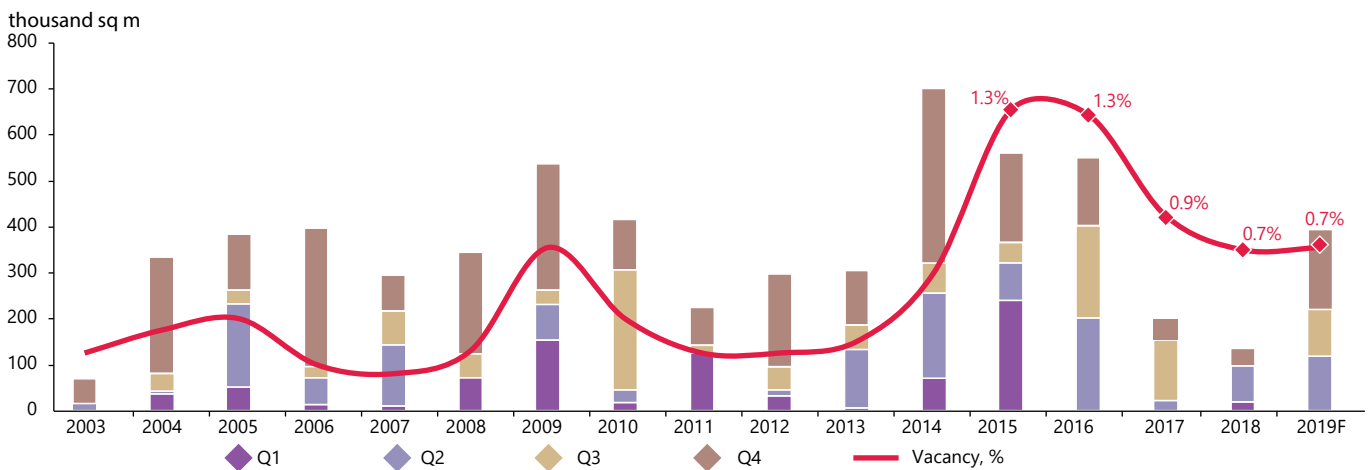
Shopping centres stock (GBA / GLA), million sq m	12.7/6.46
Scheduled for opening in 2018 (GBA / GLA), thousand sq m	≈616.4/≈275.2
Vacancy rate, %	7.1 (+ 0.1 p. p.)**
Fixed rental rent:	
Retail gallery tenants, rub./ sq m/year	0–120,000
Anchor tenants, rub./ sq m/year	3,000–20,000
Operating expenses:	
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	512.5

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

** Compared to H1 2018.

Source: Knight Frank Research, 2019

Volume of opened shopping centers and vacancy rate dynamic



Source: Knight Frank Research, 2019

Supply

In H1 2019, the total stock of retail properties enlarged to 12.7 million sq m (GLA – 6.46 million sq m) in Moscow. It grew by Salaris SEC and Galeon SC opened in Q2 2019, their cumulative gross leasing area amounting to 119,000 sq m.

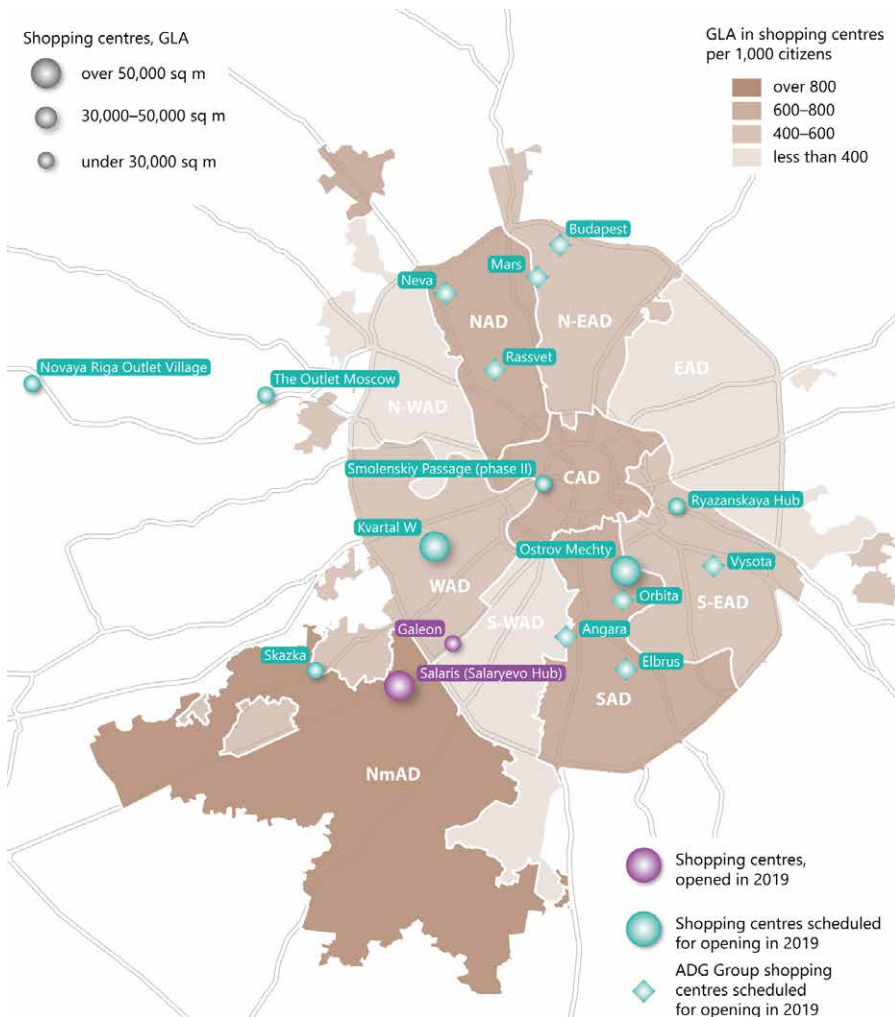
With the new openings, the quality retail premises saturation in Moscow amounted to 512.5 sq m per 1,000 residents. It places Moscow in the fifth place among the Russian cities with over one million inhabitants, after Ekaterinburg, Samara, Nizhniy Novgorod and St. Petersburg.

Among the “Old Moscow” administrative districts, Central, North and South districts are the most provided ones. Novomoskovskiy Administrative district leads the way with its 1,513 sq m per 1,000 inhabitants due to small population (259,682 inhabitants). A significant population growth is expected here in the nearest three to five years. A large amount of residential property will be put into operating against the backdrop of a low pace in retail property launching leads to saturation at level up to 750-850 sq m per 1,000 inhabitants. Troitskiy Administrative District is the least provided, with the zero value. However, the situation is likely to change due to opening of Moskovskiy SC (GLA 17,000 sq m) which announced to be opened at the beginning of 2020 and includes a lounge zone.

In total about 460,000 sq m are vacant in the Moscow functioning shopping centers. The largest volume of vacant premises is located in Northeast District. About 45,000 sq m out of 423,000 sq m of retail area are vacant here, which is 10% of all Moscow vacant premises. It is worth noting, that two thirds of all vacant premises are located in Golden Babylon Rostokino SC, which is currently undergoing a rebranding into EUROPOLIS Rostokino as well as reconceptualizing.

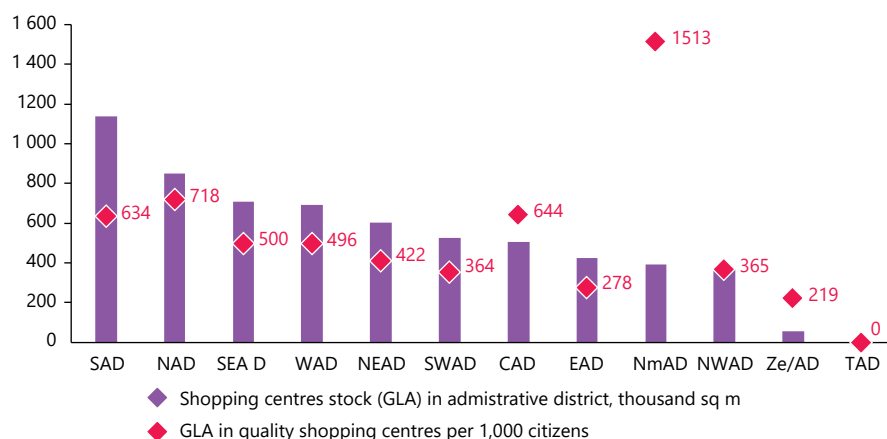
Major developers continue their renovation campaign upgrading the existing shopping centers in order to prolong the lifespan of their properties and to attract new customers. Thus, developer Crocus Group started renovating Vegas Kashirskoye Highway SC, while Garant Invest, the financial and manufacturing corporation, is reconceptualizing Perovo Mall SC acquired in 2018. Tashir Group of Companies plans to finalize the rotation of tenants in RIO SC at Dmitrovskoye Highway by the end of the year. Fort Group is working on a full-scale renovation of Zolotoy Vavilon SEC. The first stage of renovation of MEGA SEC is coming to an end in Moscow. A redevelopment project by ADG Group Angara Movie Theater is

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



Source: Knight Frank Research, 2019

Supply volume and leasable area saturation by Moscow Districts



Source: Knight Frank Research, 2019

planned to be opened by the end of summer. The reconstruction of Stadium «Olympiyskiy» was announced by Kiyevskaya Ploshchad company promising a retail component to be part of the renewed property.

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 aim can be reached 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 in the food and entertainment zones are the key points the renovation based upon. Single properties undergo a full-scale tenant rotation as the owners reconsider the tenant-mix. Besides above mentioned, they pay attention to such details as lighting, decorating, and other improvements of the common zones, as well as creating additional common spaces such as lounge zones and event zones of all kinds (for holding master classes, lectures, festivals, dramatic performances, etc). Thus, AFIMALL SC announced a festival of contemporary art including dramatic performances. Glamping with tents and a swimming pool has been held in the parking area of Aviapark SEC for two straight years. A conception of youth

space with street-fashion stores, department store Khlebniy, and 21shop takes place in Tsentralny Detskiy Mir

On the other hand the retailers 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 ZIL territory, focusing on innovation: virtual reality technology, service, and experiments. The other one is a 1,200 sq m urban supermarket in Columbus SC. IKEA opened its first store inside Moscow called Probnik (7,700 sq m) in Aviapark SEC. The trend of decreasing hypermarkets area spreads wider. Thus, furniture and home goods stores of 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.

Demand

The vacancy rate in Moscow shopping centers rose insignificantly to 7.1% in H1 2019 as compared to Q4 2018. However, the index declined by 0.6 percentage points compared to H1 2018.

The vacancy rate in the largest conceptual shopping malls amounted to about 3% of GLA. At the same time, the vacancy rate in the major shopping centers operating more than two years amounted to 3.3%.

Twelve international retail operators came to the Russian market over H1 2019, which is less than a year ago (13 brands). New brands mostly represent the price categories "upper middle" and "premium" and refer to "Apparel, Footwear, Lingerie" profile. Eight of 12 brands were opened as full-size stores and boutiques (such is the case of Sanders Grill by KFC, the restaurant), while three of them appeared to be corners and one was a pop-up store.

The trend of opening the first sales points as corner and pop-up store has been quite popular in the past three years. The corner format allows an international retailer to mitigate the risks when entering the Russian market by choosing a more popular location with a solid target audience for the brand. It is worth mentioning that the premium sector is more resistant to the crisis phenomena and change of customer opportunities in Russia.

Over 20 brands were opened as pop-up stores in H1 2019, including Etro Home in GUM, Ulyana Sergeenko in Petrovskiy Passage and Vremena Goda SC, Tag Heuer and Burberry in Crocus City Mall, Uniqlo in Atrium SC, MiuMiu in TSUM, and Nespresso in Smolenskiy Passage SC. Tom Taylor company also announced its plans to develop 50-70 sq m pop-up stores.

A number of international companies are planning to open their stores in Russia. Among them there are a make-up brand Skin&Co



SEC «Kashirskaya Plaza»

Roma, apparel brands &OtherStories and WeekDay of H&M, a Chinese apparel retailer Urban Revivo, a Korean cinema chain CJ CGV working with ADG Group, and a Polish children's apparel brand Minimi.

At the same time several Food&Beverage companies announced their plans to enter Russia market. They are a French Hana Group featuring Japanese cuisine, a British health food company Holland&Barrett, and a major Japanese fast food chain Matsua

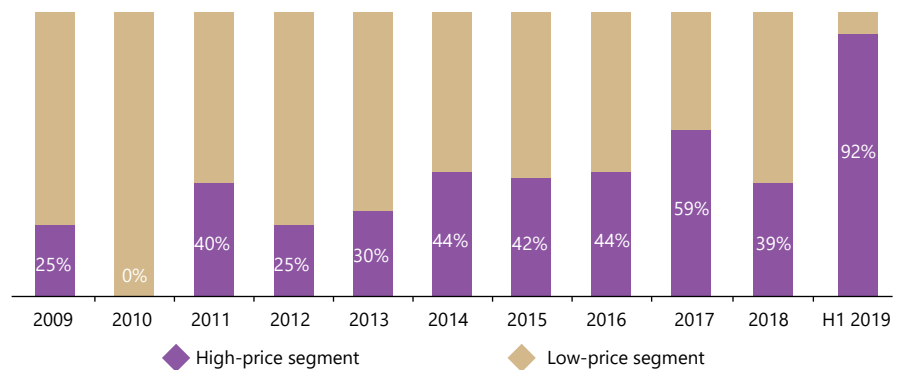
Commercial terms

The rent rates for retail premises in shopping centers didn't undergo substantial fluctuations over H1 2019 staying generally within the same price band. The highest basic rent rates accounted for the premises within the food court zone and for pop-up retail in the functioning properties with solid footfall, reaching 150,000 rubles per sq m per year. The lower range rents were set for anchor tenants for premises over 2,000 sq m.

Forecast

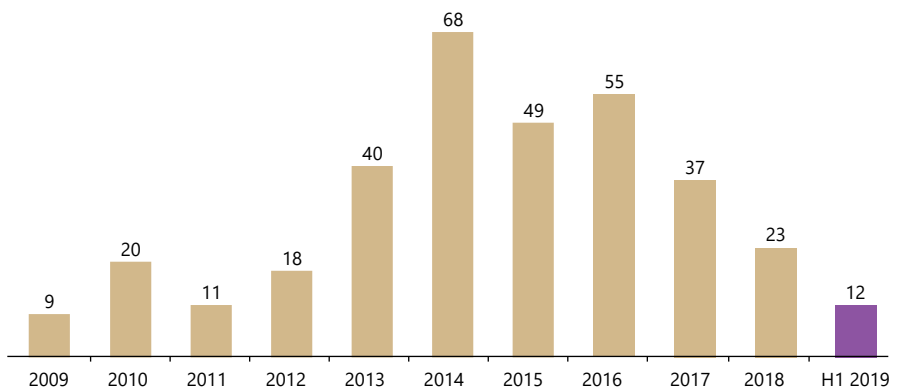
A number of major projects were announced to be opened by the end of 2019. Among them there are Ostrov Mechty SC (GLA – 70,000 sq m) and Kvartal W SC (GLA – 68,000 sq m). Also, there are two shopping centers as a part of transport hubs: Skazka SC (GLA – 18,600 sq m) and shopping center in Ryazanskaya Transport Hub (GLA – 14,000 sq m). Two outlet centers at Novorizhskoye

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



Source: Knight Frank Research, 2019

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



Source: Knight Frank Research, 2019

International operators entered the Russian market in H1 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	Sanders Grill by KFC	USA	Food&Beverages	Under middle
9	Richard Mille	Switzerland	Jewelery/ Watches	Premium
10	Giovanni Raspin	Italy	Jewelery/ Watches	Premium
11	VFiles Yellow Label	USA	Apparel / Footwear / Lingerie	Upper middle
12	Off-White	Italy	Apparel / Footwear / Lingerie	Premium

Source: Knight Frank Research, 2019

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Highway is going to be opened – Novaya Riga Outlet Village (GLA – 25,300 sq m) and The Outlet Moscow (GLA – 14,500 sq m). Furthermore, Smolenskiy Passage Phase II (GLA – 13,000 sq m) will be put into operation.

According to announced developers plans the new supply is estimated as 349,000 sq m in 2019. However, considering the established market practice of opening rescheduling for some properties, the actual volume of new supply is likely to be limited to 250,000 sq m this year.

Small formats of retail properties have been rapidly developing since the beginning of 2018. On quarterly basis two to four new shopping centers with GLA 3,000-20,000 sq m open in Moscow. The format is popular as the consumers seeking to save time more often because of what prefer retail properties within their immediate neighborhood. That directly affects the commercial attractiveness of the format and results in a sooner return on investment of a smaller retail property rather than a major shopping center. A conception of small mall designed to meet the needs of the neighbor audience is able to offer multifunctional and comfort environment for leisure, shopping, and entertainment. In current market situation the format will gain popularity further on from both developers and consumers, therefore competing with large shopping centers with outdated conception intended only for shopping.

In addition to community centers, new Moscow supply will also be formed by retail area located within transport hubs. The city authorities attract investors via tenders for some properties and work on some other ones on their own. As of today, investors entered 15 transport hub projects, most of which have a retail component. Consequently construction of shopping malls is announced to take place within Vykhino Transport Hub (GLA – 70,000 sq m), Seligerskaya (GBA – 145,000 sq m) and Park Pobedy (GBA – 237,000 sq m) by Tashir, Shchelkovskaya Transport Hub by Kiyevskaya Ploshchad, Botanicheskiy Sad Transport Hub (GLA – 27,000 sq m), Khovrino Transport Hub (GBA – 25,000 sq m). Apart from that, an affiliate of Kiyevskaya Ploshchad applied for an investment package for Nagatinskaya Transport Hub. The mentioned properties are scheduled to be commissioned within 2019-2022.

The transformation of consumer preferences with trend of sustainable consumption considerably influenced on development of outlet centers. Thus, two outlet centers

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	4–8
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	12–14
Restaurants	0–25,000	10–14

*Commercial terms had been discussed at negotiation process

Source: Knight Frank Research, 2019

at Novorizhskoye Highway are scheduled for opening by the end of 2019: The Outlet Moscow (luxury sector) and Novaya Riga Outlet Village (premium sector). Another outlet center, Vnukovo Premium Outlet at Kievskoye Highway, is expected to be opened at the beginning of 2020. Besides, it is worth mentioning that XL Family Outlet, which was reconceptualized from XL Shopping Center at Yaroslavskoye Highway, was opened in Q1 2019

The following shopping centers were announced: Paveletskaya Plaza SC (GLA/GBA – 35,000 sq m/73,000 sq m), expected at the end of 2020; Gorod Kosino SEC (GLA/GBA – 72,000 sq m/127,000 sq m) received its construction permit; Prokshino Mixed-Use Complex by Safmar Group (GBA – 332,000 sq m) expected to begin construction in 2020.

Neighborhood malls are represented by

the following projects: a shopping center in Aviakonstruktora Milya Street (GBA – 11,000 sq m), which is located close to operating Milya SC, and shopping center in Leninskiy 38 Residential Complex (GLA – 10,000 sq m), which is planned to be opened in 2021. A former abandoned construction in Kronshtadtskiy Boulevard, Gavan SC (GLA – 18,200 sq m) was finally commissioned, however its leasing campaign is still in progress.

Considering new retail projects, we expect a slight increase in shopping centers vacancy rate to 7.7%. However, the vacancy rate in stable malls operating more than two years is set to decline.

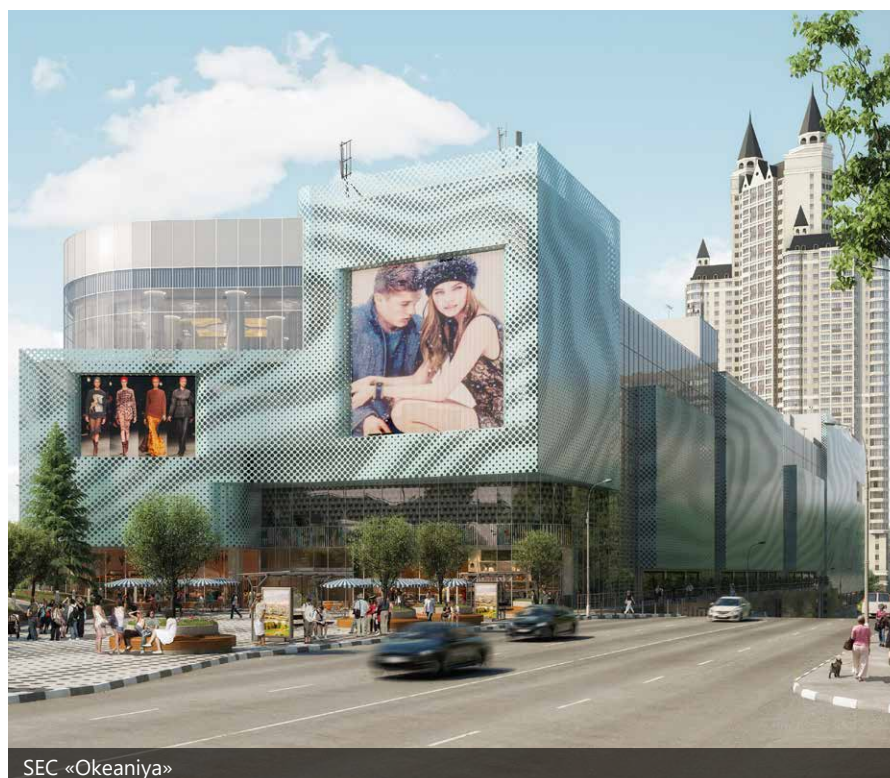
Shopping centers which will be opened by the end of 2019

Name	Address	GBA	GLA
Ostrov Mechty	Nagatinskaya poima	280 000	70 000
Kvartal W	Aminyevskoye hw bld.15	125 000	68 000
Novaya Riga Outlet Village	Novorizhskoye hw., Pokrovskoye	38 000	25 280
Skazka	Borovskoye hw /Korneya Chukovskogo str.	29 000	18 608
The Outlet Moscow	Novorizhskoye hw 5 km from MKAD	27 000	14 500
SC in hub «Ryazanskaya»	Nizhegorodskaya Street	20 000	14 000
Smolenskiy Passazh phase II	Smolenskaya Square, 7-9	14 800	13 000

ADG Group Projects

Name	Address	GBA	GLA
Budapest	Leskova Street, 14	19 103	9 736
Angara	Chongarskiy Boulevard, 7	12 479	6 785
Rassvet	Zoi i Aleksandra Kosmodemyanskikh Street, 23	9 365	6 460
Mars	Inzhenernaya Street, 1	8 070	6 184
Vysota	Yunykh Lenintsev Street, 52	8 944	6 139
Orbita	Andropova Avenue, 27	9 066	5 958
Neva	Belomorskaya Street, 16A	8 664	5 890
Elbrus	Kavkazsky Boulevard, 17	6 919	4 701

Source: Knight Frank Research, 2019



SEC «Okeaniya»

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