RESEARCH

Knight Frank

20 YEARS IN RUSSIA

H1 2016

RETAIL MARKET REPORT

Moscow

HIGHLIGHTS

The total leasable area of shopping facilities opened in Q2 2016 amounted to 202.4 thousand sq m (GBA – 482 thousand sq m). This is the maximum Q2 value in the history of the retail real estate market of the capital.

Gradual change of situation has been observed in recent months – intensification of the negotiating process, the increasing interest of tenants to projects under construction, creation and testing of new formats of chain stores. The activity of international operators is average: 24 first stores of international brands were launched in H1 2016 in Moscow.

The vacancy rate in operating shopping centres may reach a record high by the end of the year – 16.4%, increased by 3.3 p. p.

Alexander Obukhovsky
Retail Director, Knight Frank Russia & CIS

"Most market participants have overcome the most difficult shocking period, they no longer talk about hitting the bottom and waiting for the rebound. Whatever the losses the market has adjusted to the fact that business can be run in uncomfortable conditions. Anti-crisis model of consumption was updated: consumers have repeatedly exercised it with a variety of specific settings over the last 10 years. Positive activity in development and expanding of the retail sector shall be emphasized: business search of opportunities gets going again in the form of new schemes of commercial relations, new retail formats, new profiles in shopping centres, redevelopment plans of large and long operating shopping centres. There is also a revival of interest in the designed projects of reliable development companies".

RETAIL MARKET REPORT MOSCOW

Key indicators. Shopping centres*

Shopping centres stock (GBA / GLA), million sq m	10.6 / 5.5 (4.4% ▲) / (3.8% ▲)**
Opened in H1 2016 (GBA / GLA), thousand sq m	482.1 / 202.4
Scheduled for opening in H2 2016 (GBA / GLA), thousand sq m), million sq m	1.0 / 0.49
Vacancy rate, %	14.3 (1.2 p. p. ▲)**
Base rents, RUR/sq m/year (not including operating expenses and VAT)	
anchor tenants	0–12,000
retail gallery tenants	0–35,000
Operating expenses, RUR/sq m/year	2,500–9,000
GLA in quality shopping centres per 1,000 citizens	444 (2.9% ▲)**

* 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 thousand sq m
** Compared to Q4 2015

Source: Knight Frank Research, 2016

Shopping centres opened in H1 2016

Object	Address	GBA, sq m	GLA, sq m
Riviera	18 Avtozavodskaya St	298,000	100,000
Riga Mall	Novorizhskoe Hwy, 5 km from MKAD	157,000	80,000
Vostochniy Veter	1st of May district, Schelkovskoe Hwy, Balashikha	17,000	15,000
Akvarel Yuzhnaya	Bld 1, 9 Kirivogradskaya St	10,100	7,420

Source: Knight Frank Research, 2016

Supply

No supply growth was registered in Q1 2016, while Q2 was marked by the opening of four retail facilities. For example, Riviera shopping centre welcomed its first customers in April. Interestingly, that this centre is in top five largest shopping centres opened in Moscow over the past 5 years, but it is the only one located within the Third Transport Ring.

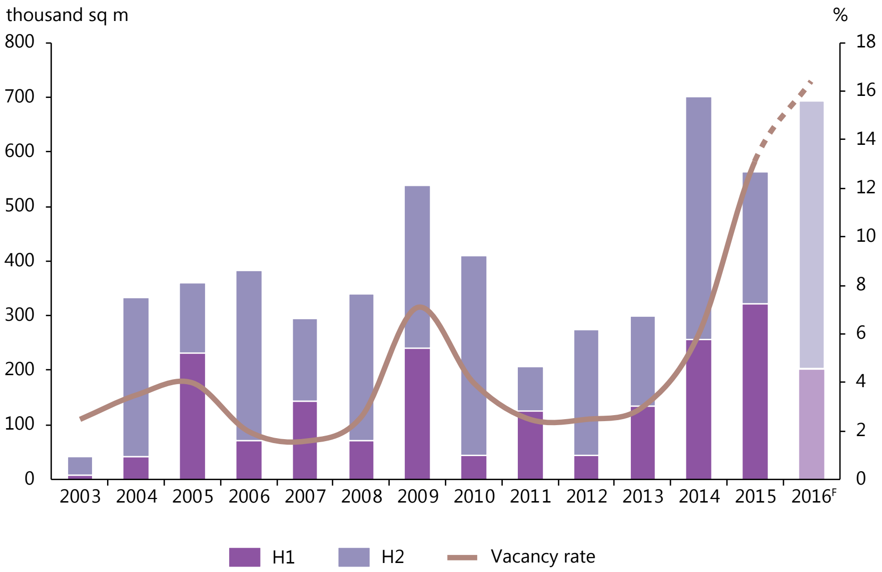
Another new large shopping centre was Riga Mall, where OBI hypermarket was launched in June. The active lease campaign of this centre is still underway.

Vostochniy veter shopping centre of a district format was also opened (15 thousand sq m GLA) in the capital together with Akvarel Yuzhnaya shopping centre of a microdistrict format (GLA – 7.4 thousand sq m).

Thus, the total leasable area of shopping facilities opened in Q2 2016 amounted to 202.4 thousand sq m (GBA – 482.1 thousand sq m). This is the maximum Q2 value in the development history of the retail real estate market of the capital. At the same time, this volume forms only 30% of the space declared for commissioning in 2016.

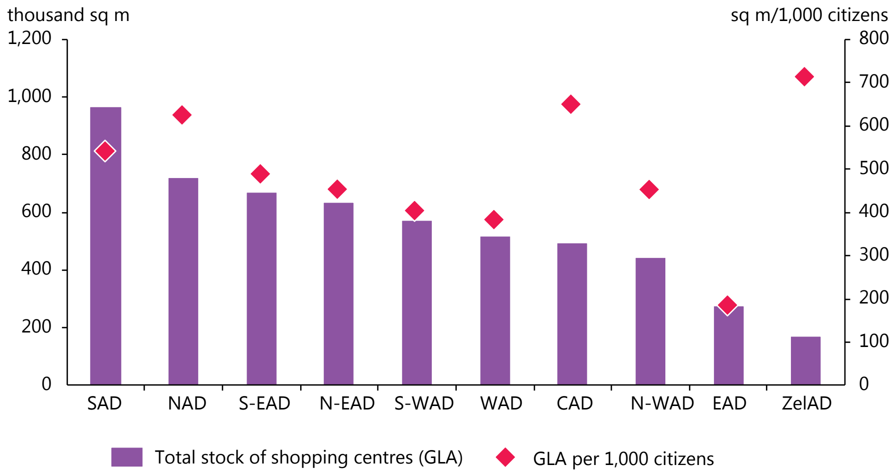
The largest amount of quality retail space is now concentrated in Southern Administrative District of the capital. The opening of Riviera shopping centre located here has even increased this gap with the other Moscow districts. Zelenogradsky Administrative District is the leader in the ranking of retail space supply. Eastern Administrative District has been the least supplied district over the years. This situation will remain unchanged despite the fact that the launch of Kosino Park shopping centre is expected in Q3 2016 (39 thousand sq m GLA).

Volume of opened shopping centres and vacancy rate dynamic



Source: Knight Frank Research, 2016

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



Source: Knight Frank Research, 2016

* The data on ten administrative districts of Moscow are considered

Demand

Retrospective analysis of consumer confidence index, provided by different companies on the basis of index method demonstrates that consumers assess their financial capabilities as limited and adhere to certain crisis consumption patterns for more than two years already.

The consumer confidence index (Rosstat) has displayed a gradual decline* from Q1 2015: the figure fell by another 4 points in Q1 2016 (from -26 to -30). VTsIOM survey shows a more positive consumer confidence index**: the quarterly indicator ranged within 3 points during the year (Q2 2015–Q2 2016) and reached its maximum value of 34 points for the analyzed period at the end of Q2 2016.

The low degree of optimism of final consumers remained one of the main factors hindering the development of active operators throughout the year, and hence constraining the demand growth for retail space. However, gradual change of situation has been observed in recent months – intensification of the negotiating process, the increasing interest of tenants to projects under construction, designing and testing new formats of chain stores.

The vacancy rate upturn in operating shopping centres was recorded in Q2 2016: 12.5% in the beginning of April to 14.3% by the end of June. A sharp change of this value can be attributable to the introduction of several shopping centres with very low occupancy level. In general, the total amount of retail space exposed to the market (both in operating centres and in projects under construction) has not changed for the quarter and is still about 1 million sq m.

The activity of international operators is average: 24 first stores of international brands were launched in H1 2016 in Moscow.

International retailers opened its first store in Moscow in H1 2016

	Brend	Country	Profile	Price segment
1	Aigle	France	Apparrel. Footwear	Middle
2	Armani Exchange	Italy	Apparrel	Middle
3	Barbour	Great Britain	Apparrel	Upper middle
4	Burvin	Belarus	Apparrel	Middle
5	Charlotte Olympia	Great Britain	Footwear	Premium
6	Demurya	France / Russia	Apparrel	Premium
7	Ferutdin Zakirov Atelier	Uzbekistan	Apparrel	Premium
8	Gawatt	Armenia	Café / Restaurant	Middle
9	Heineken (pop-up)	Netherlands	Café / Restaurant	Middle
10	Holika Holika	South Korea	Cosmetics / Perfumeriy	Middle
11	Il Gufo	Italy	Goods for children	Upper middle
12	John Varvatos	USA	Apparrel	Premium
13	KidZania	Mexico	Edutainment	Middle
14	Kiko Milano	Italy	Cosmetics / Perfumeriy	Middle
15	Ladurée	France	Café / Restaurant	Upper middle
16	Lion of Porches	Portugal	Apparrel	Middle
17	Love Stories	Netherlands	Lingerie	Middle
18	Nature Republic	South Korea	Cosmetics / Perfumeriy	Middle
19	Newby London	Great Britain	Tea boutique	Upper middle
20	Obag.store	Italy	Accessories	Upper middle
21	Ravazzolo	Italy	Apparrel	Premium
22	Tardini	Italy	Footwear. Accessories	Premium
23	Urban Decay	USA	Cosmetics / Perfumeriy	Middle
24	Victoria's Secret Pink	USA	Lingerie. Apparrel	Middle

Source: Knight Frank Research, 2016

* The consumer confidence index (Rosstat) reflects the aggregate consumer expectations of the population and is fixed on a quarterly basis by the Federal State Statistics Service

** The consumer confidence index demostrates to which extent the Russians consider the current time as a favorable moment for major purchases. The index is based on a survey. The indicator can range from 10 to 90. The higher the index value, the more the Russians believe that this is an exact moment for large purchases

There are almost two times more newcomers if compared to the same period in 2015, but at the moment there are no preconditions to the fact that the demand from new players can reach the level of 2014, when the market was joined by 77 new brands (34% of all introduced participants in the last 5 years).

International operators of clothing and footwear segments were the most active in H1 2016 (54% of the number of new brands). Italian companies traditionally led the way by the countries of origin ranking (25%). French (13%), British (13%), the US (13%) brands and operators from the CIS countries were also dynamic. Striking is that 46% of new brands are targeted at audiences with above the average incomes. At least another dozen premieres are expected till the end of 2016. Among them are Eataly, Cofix, Presse Café, Eglo, Hofbrauhaus, Lillapois Beauty and others.

Commercial terms

No drastic changes of terns were seen in Q2 2016. Despite the actual market transition to ruble calculation of rental payments, the landlords single have still kept the pricing in foreign currency and are not ready to fix the range of currency band for a long period.

In the current environment, even though the lease campaign is started early in advance, there is a significant share of vacant space in properties introduced at the market. Due to the difficulties in attracting tenants, the stabilization of operating income for the landlords of the new shopping centres can be reached only after 2–3 years of property rental cycle.

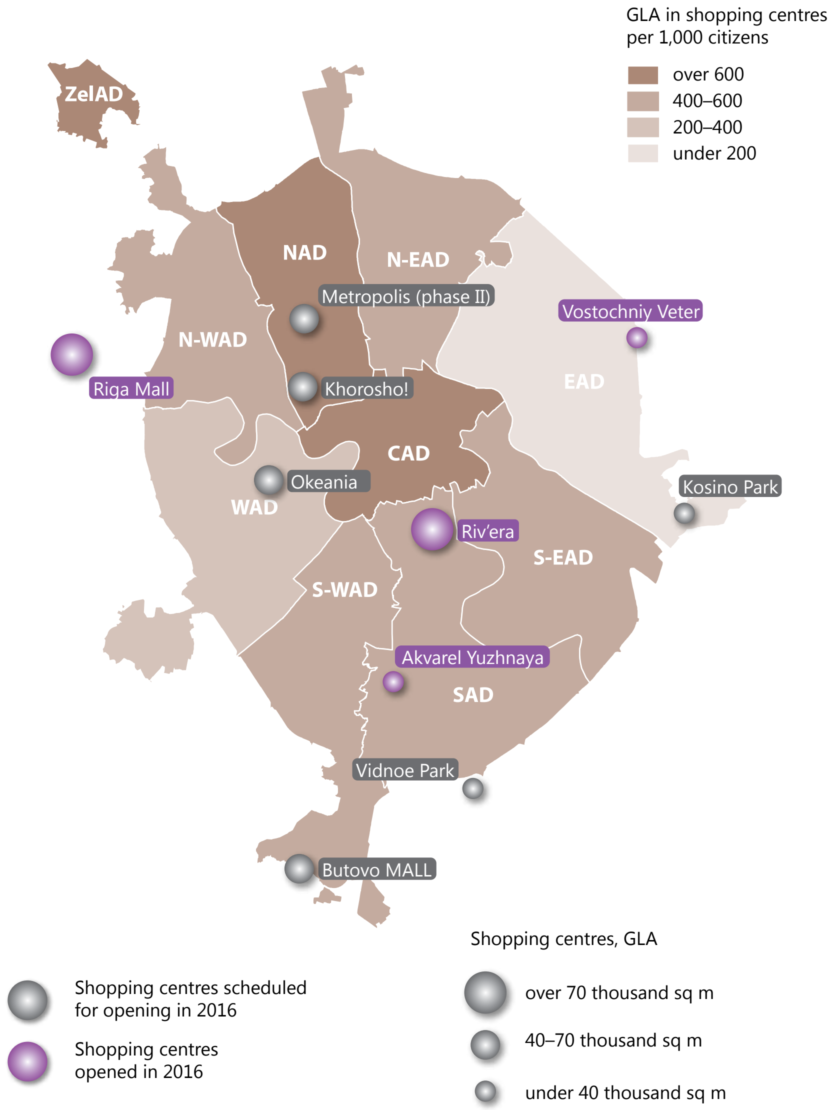
Okeania SEC

Rental rates in modern shopping centres

Profile	Fixed rental rate*, RUR/sq m/year	The share paid based on turnover, %
Hypermarket (>7,000 sq m)	0–10,000	1.5–4%
DIY (>5,000 sq m)	0–6,000	4–6%
White & Brown (1,300–4,000 sq m)	4,000–12,000	2.5–4%
Sporting goods (1,000–6,000 sq m)	0–10,000	6–10%
Goods for children (1,000–2,000 sq m)	6,000–15,000	8–12%
Apparels (400–1,000 sq m)	0–30,000	4–12%
Footwear (300–500 sq m)	0–35,000	7–12%
Entertainment (1,000–4,000 sq m)	0–6,000	10–13%

* Commercial terms had been discussed at negotiation process.
Source: Knight Frank Research, 2016

Shopping centres opened in H1 2016. Largest shopping centres scheduled for opening in H2 2016



Source: Knight Frank Research, 2016

Largest shopping centres scheduled for opening in H2 2016

Object	Address	GBA, sq m	GLA, sq m
Okeania	3 Slavyanskiy Blvd	137,000	60,000
Butovo MALL	Ostaf'yevskaya St / Chicherskiy passage	154,000	54,500
Khorosho!	Bld 1, 33 Khoroshevskoe Hwy	114,000	50,000
Kosino Park	5 Svyatoozerskaya St	79,000	39,000
Metropolis (phase II)	16 Leningradskoe Hwy	66,000	38,000
Vidnoe Park	M-4 Don, 4 km from MKAD	105,000	27,600

Source: Knight Frank Research, 2016

Forecast

At least another fifteen shopping centres of various formats are most probably to be opened in Moscow in H2 2016. The largest projects to be opened in Q3–Q4 2016 will be Okeania (GLA – 60 thousand sq m), Butovo MALL (GLA – 54.5 thousand sq m), Khorosho! (GLA – 50 thousand sq m), and the second phase of Metropolis (GLA – 38 thousand sq m). Thus, the increase in quality retail space will be about 700 thousand sq m by the end of 2016 (GBA – around 1.5 million sq m), which can be one of the highest indices in the history of the retail real estate market of the capital. However, it is possible that the lease campaign of some shopping centres will require significant time resources together with the transfer of commissioning terms for future periods.

The vacancy rate in operating shopping centres may reach a record high level by the end of the year – 16.4%, increased by 3.3 p. p.

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