Q1 2014
RETAIL REAL ESTATE MARKET
RUSSIA

Knight Frank

Shopping centres opened in Q1 2014

10 shopping centres with a total area of about 337.3 thousand sq m were delivered in Russia (with exception of Moscow) in Q1 2014, which is comparable to the same period in 2013 (364.2 thousand sq m). This figure represents about 12% of the total space announced for delivery in 2014.

* GBA

Depending on the profile, the share of lease payments within the operator's turnover can vary in the range of 2% to 22%. The ratio of turnover and the amount spent on lease for the tenants of the same profile remain virtually unchanged in various regions of Russia. For example, when it comes to retail operators of goods for children, 11–16% of turnover go to the owner of the facility regardless of the degree of market development in a city.

Profile	The lease payments share within the operator's turnover
Apparels	11–18%
Goods for children	11–16%
Lingerie	8–14%
Footwear	13–16%
Bags	18–20%
Sporting goods	11–13%
Accessories	18–22%
Gifts	20–22%
Jewelry	7–10%
Health and Beauty	12–16%
Restaurants	8–15%
Food court	8–10%
Electronics	3–8%
Home appliances	12–15%
Entertainment	12–15%
Cinema	8–12%
Grocery	2–5%

Source: Knight Frank Research, 2014

Main trends

Although economic conditions (shaken trust in banks, high volatility of the ruble) and the changes in political situation did not result in a significant drop in demand for retail space with tenants, they brought on a significant slowdown of lease agreements negotiation process.

In Q1 2014, the commercial terms remained relatively stable, and the annual indexation of lease contracts was carried out without conflicts. Operators insist on fixing the "currency corridor" in the lease contracts, while the owners of retail facilities prefer to compensate their tenants for foreign currency rates growth by indirect methods (for example, by refusing to carry out annual indexation in case of exceeding some fixed rate).

Retailers adhere to a more careful development strategy: they choose the most attractive shopping centres with high traffic.

Key events

- Russian FMCG-company X5 Retail Group announced its withdrawal from the market of Ukraine (the sale of 13 Perekryostok stores is in the final stage).
- Several major federal-level operators (Russian representatives of Metro Group, Detskiy Mir, Obuv Rossii) at a time delayed their entry to IPO.
- Construction of two Big-Box hypermarkets has started in Saint Petersburg (14 hypermarkets of the chain are planned for delivery by 2018).
- Negotiations resumed between the administrative structures of the Volgograd region and the Swedish concern IKEA to acquire land plot for the construction of a shopping centre.

Retail space per 1,000 citizens

Source: Knight Frank Research, 2014

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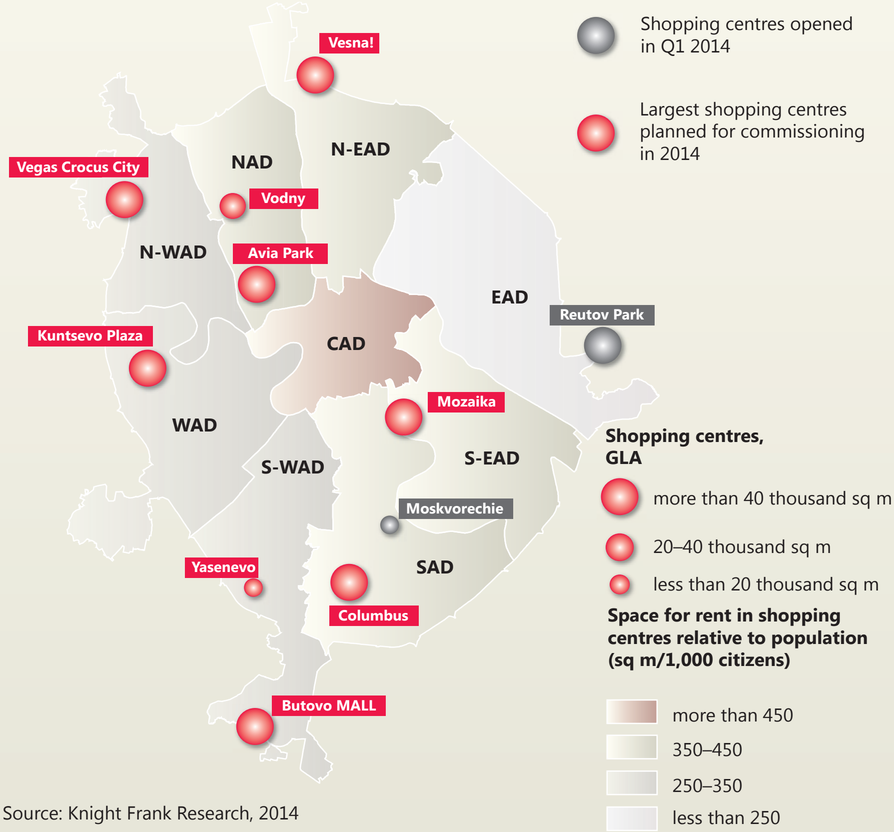
RETAIL REAL ESTATE MARKET
MOSCOW

The total supply stock in the shopping centres of Moscow in Q1 2014 has grown by 119.7 thousand sq m (GLA – 57.7 thousand sq m). The total volume of space has reached 7.52 mln sq m (GLA – 4.01 mln sq m).

By the end of 2014, more than 20 shopping centres with a total area of 1.92 mln sq m (GLA – 0.96 mln sq m) are announced for delivery. Such a significant supply growth will lead to an increase in vacancy rate, which by 2015 may reach 7%.



Source: Knight Frank Research, 2014

Key events

- AFI Development company plans to open a large showrooms centre for manufacturers and distributors in Moscow, the Gallery showrooms Expolon (GBA – 110 thousand sq m).
- The first stores of Spanish fashion-chain Lefties will open in Russia.
- House of Fraser stores chain (UK) plans to expand to Russia.

Commercial terms

When signing new lease contracts, retail operators strive either to fix the exchange rate or to enter into “ruble” contracts. It should be noted that the purchases of the majority of retailers, collaborating with international and domestic brands, are made in hard currency, which means that in the near future the retail price of their purchased goods is likely to grow.

At first glance, this may lead to growth in the ruble revenues for the developers from cooperation with the operators, whose rates are tied to turnover. On the other hand, the growth of commodity prices, as during the preceding periods of devaluation, is likely to lead to reduction in consumer demand and turnover shrinkage for the operators.

Rental rates in modern shopping centres in Moscow

Profile	Fixed rental rate $/sqm/year	Share paid based on turnover
Hypermarket (>7,000 sq m)	100–250	2–4%
Urban hypermarket (3,000–7,000 sq m)	150–350	2–4%
Supermarket (1,500–3,000 sq m)	250–500	4–6%
DIY (>5,000 sq m)	200–350	4–6%
White&Brown (1,500–3,000 sq m)	250–500	2.5–5%
Sporting goods (1,500–2,500 sq m)	350–1,000	4–5%
Goods for children (1,000–2,500 sq m)	250–450	9–12%
Apparels (50–300 sq m)	800–2,500	11–16%
Footwear (50–300 sq m)	900–3,000	12–16%
Accessories (10–70 sq m)	2,500–4,500	11–14%
Cinema	150–250	7–11%
Entertainment centre (100–1,500 sq m)	220–500	8–12%
Entertainment centre (2,000–5,000 sq m)	100–200	4–7%

Source: Knight Frank Research, 2014

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