RESEARCH

Q1 2018

RETAIL MARKET REPORT

Moscow

HIGHLIGHTS

A slight increase of the new supply was recorded at the level of 18,700 sq m (GLA) at the Moscow retail real estate market in Q1 2018.

The stable dynamics of the vacancy rate drop was preserved. According to Q1 results the vacancy share in the shopping centres of the capital ran up at 8%.

New international retail operators did not demonstrate high-performance activity: only 8 new brands entered the Russian market - one third below the level of the same period in 2017.

The rents for retail space in shopping centres did not change drastically in Q1 and stayed at the present level.

RETAIL MARKET REPORT MOSCOW

Evgenia Khakberdieva
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"Q1 2018 has been steady in terms of retailers' activity: those projects listed on the market today have been in great demand, but the new ones have not yet entered the market. We expect that in the near future the main increase in supply may be caused by shopping centres within transfer hubs and small regional shopping and entertainment centres of Moscow and the Moscow region".

Key indicators. Shopping centres*. Dynamics

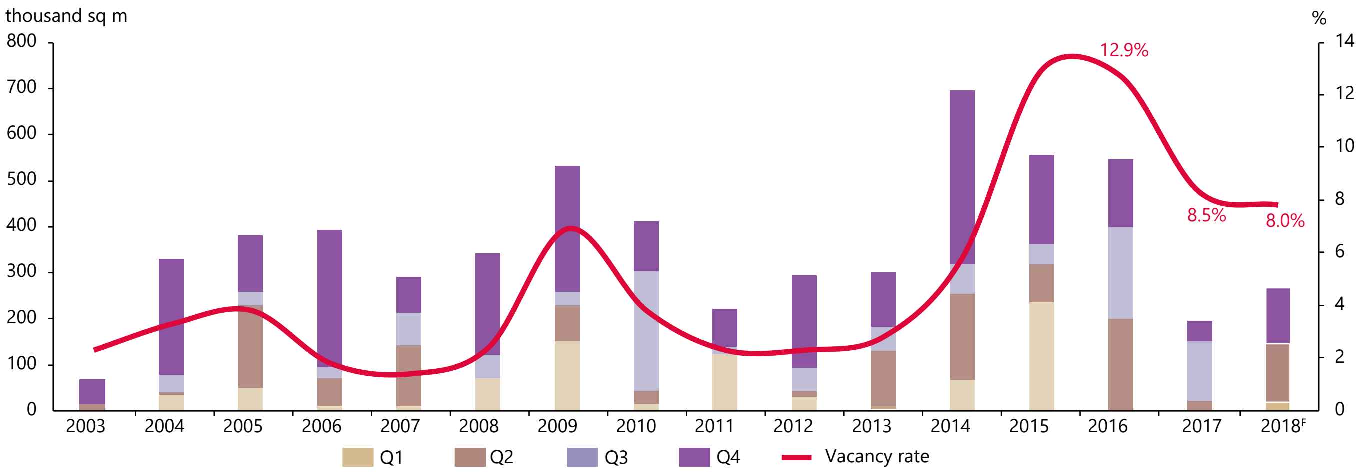
Shopping centres stock (GBA / GLA), million sq m	12.1/6.23
Scheduled for opening in 2018 (GBA / GLA), thousand sq m	532.2/268.5
Vacancy rate, %	8.0 (0.5 p. p. ▼)**
Fixed rental rent:	
Retail gallery tenants, rub./ sq m/year	0–120,000
Anchor tenants, rub./ sq m/year	0–35,000
Operating expenses:	
Retail 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	498

* 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 5,000 sq m

** Compared to Q4 2017

Source: Knight Frank Research, 2018

Volume of opened shopping centres and vacancy rate dynamics



Source: Knight Frank Research, 2018

Supply

The results of Q1 2018 highlighted that the total supply volume of the retail real estate market in Moscow came up to 12.1 million sq m (GLA – 6.23 million sq m). The supply was enlarged by one new property – Milya Shopping Centre (GLA – 18,700 sq m).

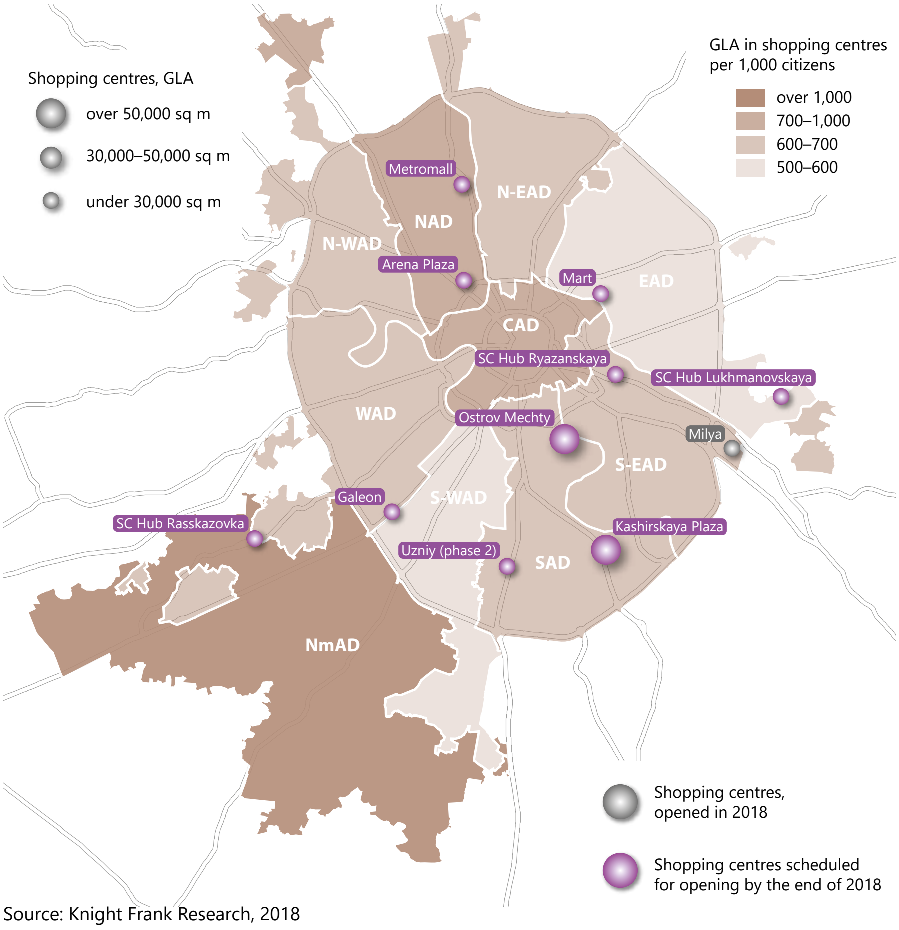
By the end of the year, 10 shopping centres were declared for commissioning, 3 of them were shopping centres in transfer hubs Lukhmanovskaya, Ryazanskaya and Rasskazovka (their total gross leasable area was 45,600 sq m).

The new supply of 2018 may reach circa 268,500 sq m of GLA according to preliminary forecasts. The largest projects announced for opening are Ostrov Mechty Shopping Centre (GLA – 80,000 sq m) and Kashirskaya Plaza Shopping Centre (70,200 sq m of GLA).

Demand

The continuing low delivery rate of the new supply and the growth of the consumer confidence index contributed to a decrease in the average market vacancy rate in the shopping centres of the capital. Thus, the vacancy rate in shopping centres of Moscow fell by 0.5% in Q1 2018 (against Q4 2017) and amounted to 8%.

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



Source: Knight Frank Research, 2018

SALARIS

International retailers, opened its first store in Moscow in Q1 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

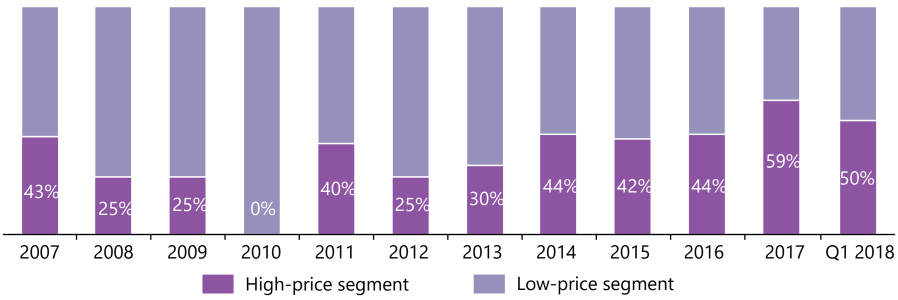
Source: Knight Frank Research, 2018

8 international retail operators approached the Russian market in Q1 2018, which was one third less than in the same period in 2017. Most newcomers – brands of European countries of the "medium" and "above average" price segment, except for the Italian clothing brand Liu Jo ("premium" segment).

The following brands shall be highlighted among the newcomers: GEOX Kids children's footwear store – the first children's store of this brand was opened in Russia rather than anywhere else; the long-awaited store of the legendary American brand of accessories Coach was opened in the middle of March in GUM; the first flagship boutique of the Italian clothing brand Liu Jo, which occupied an area on two floors in Atrium Shopping Centre.

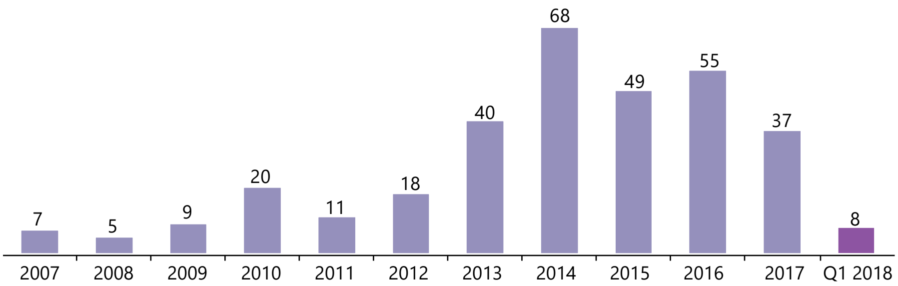
Interestingly, the brands, present already at the market, continued dynamic expansion, despite the decrease of the launch of new international brands to the Russian market. Only 1 brand announced its exit from the market in Q1 2018 – Claire's (USA, accessories and jewelry).

The structure of brands put 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– Q1 2018



Source: Knight Frank Research, 2018

Kashirskaya Plaza

Commercial terms

The level of rental rates did not suffer any significant fluctuations during the first quarter, and as a whole it stayed on in the previous price range. The maximum base rental rate fell on premises in the "food court" zone in existing projects with high traffic capacity and could reach 150,000 rub./sq m/year. Meanwhile, the minimum rents were registered in premises of more than 2,000 sq m leased by anchor tenants.

Forecast

Currently, there are about 10 retail facilities on the territory of Moscow at their final stages of construction. Their total gross leasable area is 268,500 sq m and their opening is planned before the end of 2018. Only 50–60% of space was delivered at the Moscow retail real estate market out of the declared volume of new supply over the past three years. Therefore, it is expected that the leasable area of new supply will not exceed the same indicator of the last year and may reach 150,000 sq m by the end of 2018.

According to our estimates, the low vacancy rate will continue to be maintained in landmark and successful shopping centres of the city. The properties, entering the market in the period of 2014–2017 and characterized by a rather high vacancy rate of 16%, will enjoy the gradual decline of the vacancy rate only in the case of a competent rental policy carried out by the landlords, which will include the provision of tenants with rent-free period at the project start, the possibility of turnover rent, etc.

We assume that the weak activity from international operators will be kept in 2018. The reason for the expansion slowdown of foreign brands entering the Russian market may not only be caused by the current market conditions, but also by political relations between Russia and the "supplier countries" of new brands. Circa 20 new brands are planning to approach the Russian market in 2018 according to the announced plans of operators. In other words, the indicator of 2018 is unlikely to exceed the previous one – 37 new brands.

A moderate but steady growth of the consumer confidence index was observed during the year (from Q2 2017), mainly due to optimistic expectations of potential customers. This trend gives grounds for a slight sales growth this year.

The active work on projects of transfer hubs is continuing. For some projects, the city is trying to find investors through bidding, for others it is willing to develop independently. Today, investors have purchased about 15 transfer hubs, most of which include a retail function. The construction of shopping centres within the structure of the following transfer hubs has been announced: Salaryevo (GLA – 105,000 sq m), Botanichesky sad (GLA - 45,400 sq m), Park Pobedy (GLA - 29,300 sq m), etc. The deadlines of the announced projects are scheduled for 2018-2021. Thus, the growth of new supply is expected in the near future mainly through the retail space within transfer hub projects.

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
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
Childen'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 terms had been discussed at negotiation process

Source: Knight Frank Research, 2018

RESEARCH

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