

RETAIL MARKET REPORT. RUSSIA

2020 г.

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Key conclusions

- ♦ In 2020 retail space completions totaled 604.1 thousand sq m which is the lowest indicator for the last 10 years.
- ♦ The commissioned space is mainly represented by facilities located in the Moscow region, i.e. 276.1 thousand sq. m. (45%) against 100.0 thousand sq. m. (17%) in St. Petersburg and 228.0 thousand sq. m. (38%) in other regions of Russia.
- ♦ The quality retail supply in Russia by the end of the year amounted to 29.1 million sq. m. with thirds thereof in the regional market.
- ♦ About 610 thousand sq. m. of retail space (excluding facilities in Moscow, the Moscow region and St. Petersburg) is scheduled for opening in 2021. The bulk of the new commissioning is formed by the facilities located in three federal districts: the Volga Federal District, the Urals Federal District and the North Caucasus Federal District.
- ♦ The vacancy rate in new shopping centers is expected to be 40-50%.



SEC Festival, Angarsk



Evgenia Khakberdieva

Director of Retail Department,
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"The retail real estate market in regions is in general the same as key trends in Moscow region. However, it should be noted that despite the tougher measures to prevent the pandemic in some regions, traffic in the shopping centers is actively recovering, which motivates major players to pay attention to regional markets as well. It is noteworthy that a number of shopping centers

opened during this difficult pandemic year. Such openings became significant both in terms of occupancy and attractiveness for visitors. We are sure that the province, especially the Far Eastern, Northwestern and Southern federal districts, will be in the focus of market interest in the coming years".

Moscow Region

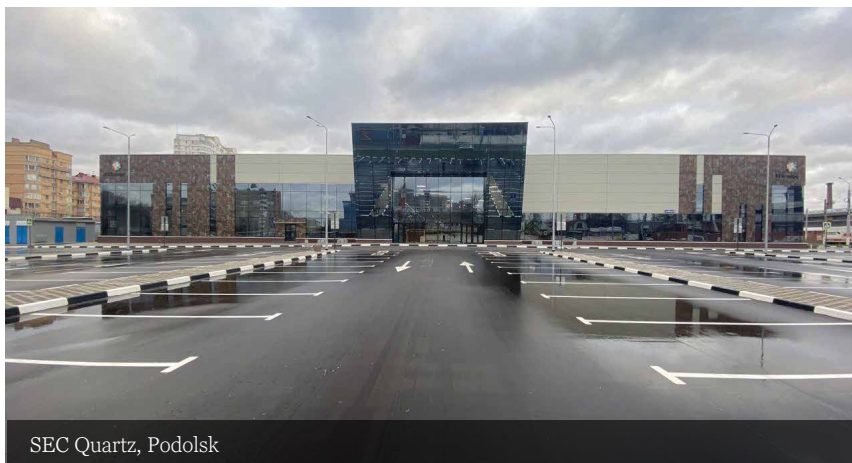
Two retail properties were commissioned in the Moscow market in 2020, their total retail space was 14.5 thousand sq. m. The indicator of new market entry of the retail space has become one of the lowest for the last 4 years.

In fact, only a third of the shopping centers announced for opening in 2020 have been commissioned. Due to the coronavirus (COVID-19) pandemic the commissioning of about 70% of the facilities previously announced for opening were postponed. However, since certain facilities are already at a high readiness level, they are expected to enter the market in the next five years.

The retail real estate market in the Moscow region is formed by neighborhood and convenience shopping centers with few tenants and easy access to the items of daily needs of the consumers within the walking distance. However, numerous retail facilities that are not high-quality retail space operate at more than 30 km from Moscow (in the third zone).

Moreover, depending on the distance from Moscow, the level and format of the retail chains presented changes: almost all federal and international operators are present in the near zone. Moving away from Moscow, the composition of tenants is more and more represented by Russian federal chains and retailers operating in the "lower middle" segment.

The city of Kotelniki remains the most supplied with high-quality retail space (5,596 sq. m. / 1,000 citizens). The



SEC Quartz, Podolsk

Key indicators*

Shopping centres stock (GBA / GLA), million sq m	2.79 / 1.74
Opened in 2020 (GBA / GLA), thousand sq m	20.50/ 14.50
Scheduled for opening in 2021 (GBA / GLA), thousand sq m	105.07 / 62.40
GLA in quality shopping centres per 1,000 citizens, sq m	304.0
For reference: The quality retail supply density in Moscow, sq m per 1,000 inhabitants	532.2

Source: Knight Frank Research, 2021

top-5 also includes Reutov (1,560 sq. m. / 1,000 citizens), Mytishchi (1,299 sq. m. / 1,000 citizens), Krasnogorsk (1,230 sq. m. / 1,000 citizens), and Pushkino (1,213 sq. m. / 1,000 citizens).

The least supplied were the cities of Dolgoprudny (71 sq. m./ 1,000 citizens),

Yegoryevsk (76 sq. m. / 1,000 citizens), Balashikha (94 sq. m. / 1,000 citizens), Ramenskoye (103 sq. m./ 1,000 citizens), and Pavlovsky Posad (109 sq. m. / 1,000 citizens).

Shopping Centers Opened in 2020 in the Moscow Region

City	Object	Address	GBA, sq m	GLA, sq m
Podolsk	Quartz	Komsomolskaya St., 24	11,500	8,500
Mozhaysk	MIR	Mira St. (opposite the building 4)	9,000	6,000

Source: Knight Frank Research, 2021

Russia

A decrease in the actual volume of commissioned retail space is observed in regional cities of Russia against the pandemic and the economic crisis: 10 retail facilities with a total leasable area of 228.0 thousand sq. m. were commissioned in 2020, which is 81% lower than the declared volume and almost half the same figure in 2019.

It should be noted that the average size of a new shopping center in 2020 increased by 4.6% compared to last year and amounted to 22.8 thousand square meters of leased space. However, it remains within the range of areas typical for regional shopping centers. The increase was due to the opening of several significant objects, i.e. the largest shopping center of the Republic of Tatarstan "KazanMall" (GLA of 54 thousand sq. m.), the "Green Park" (GLA of 50.7 thousand sq. m.) in Nizhnevartovsk and the family SEC "Baltiia Mall" (GLA of 40.5 thousand sq. m.) in Kaliningrad. Since the facilities designed several years ago entered the market, the trend towards an increase in the average area is temporary: today half

Key indicators*

Shopping centres stock (GBA / GLA) in Russia, million sq m	48.45 / 29.10
Shopping centres stock (GBA / GLA) in regions*, million sq m	27.90 / 17.43
Opened in 2020 (GBA / GLA) in regions*, thousand sq m	402.15 / 228.00
Scheduled for opening in 2021 (GBA / GLA) in regions*, thousand sq m	1,092 / 610

* Excluding facilities in Moscow, Moscow region and St. Petersburg

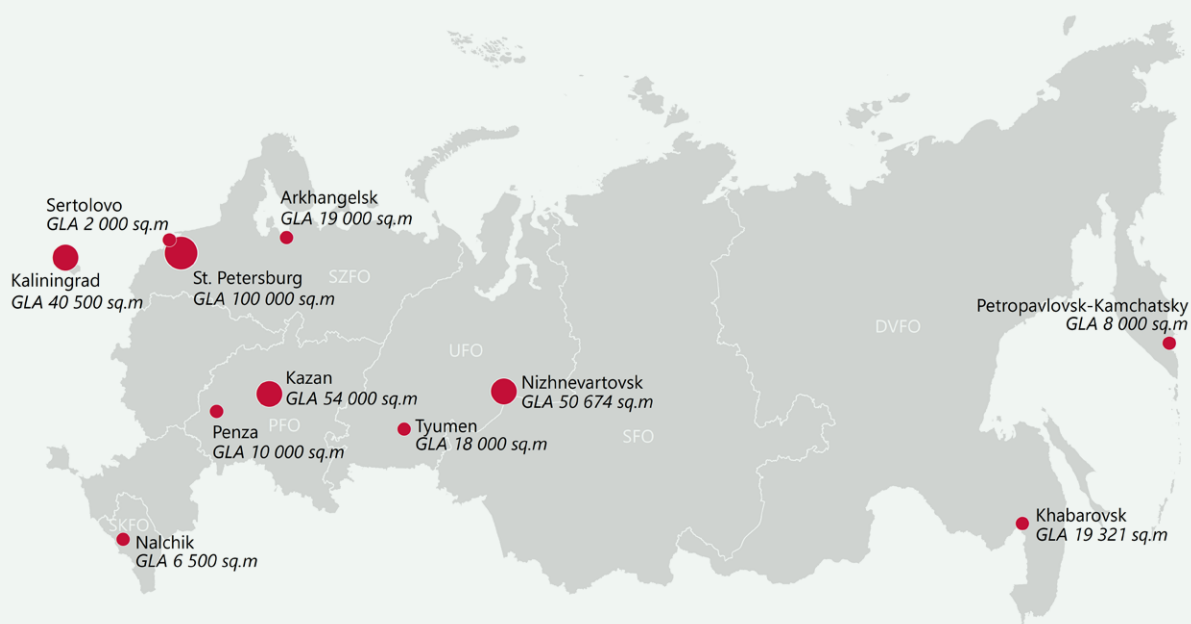
Source: Knight Frank Research, 2021

of the facilities under construction in the regions with the scheduled opening date in 2021 are neighborhood and convenience shopping centers.

The supply geography remains the same: 2/3 of the high-quality retail space is concentrated in regional cities (GBA 27.9 million sq. m. / GLA of 17.4 million sq. m.).

The Ural Federal District is leader in the commissioning of new supply in 2020 (GLA of 68.7 thousand sq. m.). The second place is taken by the Volga Federal District (with 64.0 thousand sq. m. commissioned) and the third — by the Northwestern Federal District (GLA of 59.5 thousand sq. m., excluding St. Petersburg).

Shopping Centers in Regional Cities of Russia Opened in 2020



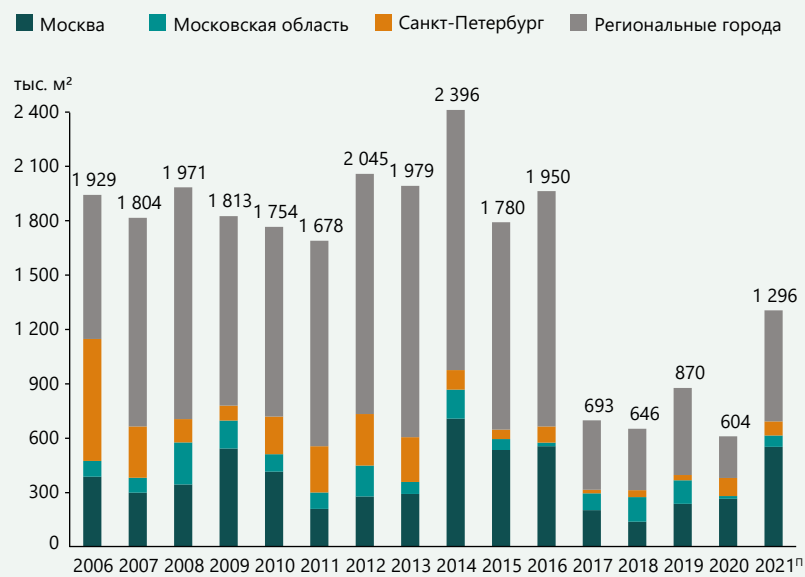
Source: Knight Frank Research, 2021

Shopping Centers in Regional Cities of Russia Opened in 2020

Region	City	Object	Address	GBA, sq m	GLA, sq m
Northwestern FD	Kaliningrad	Baltiia Mall	near the junction of the Primorsky highway and the Ring Road	55,000	40,500
Northwestern FD	Arkhangelsk	Family Room (ex. RIO)	Rozinga st., 10	26,000	19,000
Volga FD	Kazan	KazanMall	Pavluhkina st.	137,000	54,000
Volga FD	Penza	Kvartal	65 Let Pobedy st., 12	12,000	10,000
Ural FD	Nizhnevartovsk	Green Park	Lenin st., 8	90,300	50,674
Ural FD	Tyumen	Matryoshka	Shirotnaya st.	25,000	18,000
Far Eastern Federal FD	Khabarovsk	Schastye	Serysheva st., 27	33,346	19,321
Far Eastern Federal FD	Petropavlovsk-Kamchatsky	Famillion	North Eastern highway, 6	11,500	8,000
Northern Caucasus FD	Nalchik	Sreda	Chernyshevsky st., 177	9,000	6,500

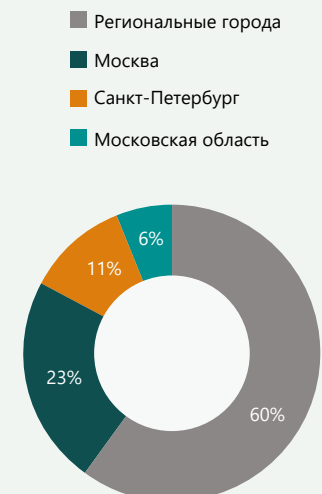
Source: Knight Frank Research, 2021

Dynamics of the Retail Real Estate Supply 2010–2021, (in thousands sq. m.)



Source: Knight Frank Research, 2021

Structure of High-Quality Retail Space in Russia



Source: Knight Frank Research, 2021

Retail chains development

Restrictive measures due to the spread of coronavirus infection have predictably resulted in recession in all sectors of the economy, including in the retail industry: according to official statistics, retail trade turnover in the Russian Federation in 2020 reduced by 4.1% compared to 2019 and amounted to 33.555 trillion rubles, with the reduction in the turnover of food products by 2.6% and of non-food products — by 5.2%.

The absolute trends of 2020 are a decrease in the number of new retail outlets openings and the restructuring of the operation of federal and regional retail chains, including the transition to online trading.

The recent-years' trend of decreasing purchasing power has positively effected the development of hard discounters such as "Svetofor", "Dobrosten" and "Pobeda". This format traditionally becomes more popular in times of crisis, since it provides for the sale of a limited range of products with a low retail markup.

Krasnoyarsk food chain "Svetofor" (GC "Torgservice") had 885 stores throughout Russia in 2019. Now, it has 1,800 ones. Moreover, the chain announced its plans to enter the metropolitan market: up to 30 stores should open in Moscow region by the end of 2021.

The coronavirus pandemic has helped popularize hard discounters. For instance, Magnit and X5 Retail Group ("Moya Tsena" and "Chizhik", respectively) has already announced the development of the new format.

X5 Retail Group announced that the "Chizhik" chain of discounters would grow to 45 outlets in Moscow and the Moscow region in 2021 and then expand to other regions.

The remarkable thing is that X5 Retail Group increased its retail space by 8.3% in 2020 — up to 7.8 million sq. m. — due to the opening of 1,410 stores (to compare: 1,866 facilities were opened in 2019). At the same time, according to the company, the convenience store format contributed to the greatest extent to business growth in 2020 against the

backdrop of traffic flow from traditional formats and hypermarkets. Moreover, "Perekrestok Vprok" online hypermarket continued to develop on the basis of dark store facilities (5 such facilities are located in the Moscow and Leningrad regions).

Magnit has started to develop its network of discounters "Moya Tsena" from regional markets: in Volgograd, Lipetsk, Samara and Ulyanovsk regions, as well as in the Krasnodar Territory.

As for the principal part of the business, the chain increased its retail space by only 3.6% by the end of 2020 — to 7.5 million sq. m. — due to the opening of 1,292 stores (669 convenience stores, 4 supermarkets and 619 drogeries). At the same time, 453 ineffective retail outlets were closed.

The "Detsky Mir" children's goods retailer, which developed most actively in 2019, also experienced difficulties in 2020: the chain store could continue to operate during the lockdown since they sold children's goods included in the essential commodities list, but the retailer temporarily closed some retail facilities and the remaining stores in shopping centers lost in traffic. In total, 71 new stores of the "Detsky Mir" chain, 12 of "PVZ Detmir" and 10 of "Zoozavr" stores were launched in 2020. In 2021, the retailer plans to open at least 100 new "PVZ Detmir" small-format stores. They plan to increase the number of "PVZ Detmir" stores to the total of 800 by the end of 2024, as well as to 300 stores of its key format — "Detsky Mir" chain.

The transition to lockdown has led to a sharp increase in demand in the DIY segment. Large DIY chains (Leroy Merlin, OBI) had to quickly restructure their business processes: for example, according to Leroy Merlin, some hypermarkets were reformatted into dark stores, where employees were engaged in collecting and issuing orders for self-pickup and delivery.

In 2020, a French DIY retailer opened 6 new hypermarkets, while the offline network expanded by 13 stores in 2019. Moreover, the retailer announced the closure of 3 city-format stores and announced its intention to focus on the b2b segment and the e-trade development.

At the same time, the "Petrovich" construction trading house (GLA of 15.2 thousand sq. m.) in Bobrovo village of Bulatnikovskoye rural settlement in Leninsky district of the Moscow region became the largest retail facility of the Moscow region in 2020.

M.Video-Eldorado Group enlarged its network by 65 stores (against 97 in 2019) during 2020: the Group's retail space increased by 1.3% (to 1.475 million sq. m.). The group expanded the geography of the chain's presence in the Far East (Petropavlovsk-Kamchatsky, Magadan) and in Kaliningrad. The retailer is planning to open about 500 stores in the next three years, half of which will be in the new "compact" format — "Eldorado 250" stores.

The first roadside store on the Russian market, "Uniqlo Pushkino" (GLA of 940 sq. m.) located on the first line of the retail park in Pushkino next to the "Pushkino Park" SEC, is worth highlighting among the projects commissioned in 2020.

Forecast

If the announced projects delivered on time, the high-quality retail space in regional cities of Russia may reach 18.04 million sq. m. by the end of 2021, that is, the supply on the regional market for the year will increase by 3.5%, or 610 thousand sq. m. in absolute terms.

To compare: the expected annual volume of new supply of shopping centres in Moscow amounts to 546.4 sq. m. (9% growth for the year), and St. Petersburg market, according to the announced plans, will grow by 77.6 thousand sq. m., which is almost a quarter lower than in 2020.

Such large retail facilities as the shopping centre as the the "Planeta" SEC (GLA of 83.0 thousand sq. m.) in Perm and the "Veer Mall" SEC (GLA of 78.0 thousand sq. m.) in Yekaterinburg as well as the largest for Nizhnekamsk and Naberezhnye Chelny mixed-use complex "Ramus Mall" (GLA of 76.0 thousand sq. m.) were announced for opening by the end of 2021.

The Far Eastern Federal District is one of the TOP-5 areas in terms of the

TOP-10 shopping centres which will be opened by the end of 2021 in regions*

Region	City	Object	GLA, sq m
Volga FD	Perm	Planeta	83,000
Volga FD	Nizhnekamsk	Ramus Mall	78,000
Ural FD	Yekaterinburg	Veer Mall	76,000
Northern Caucasus FD	Grozny	Grozny Mall	59,000
Volga FD	Kirov	Maxi	45,000
Volga FD	Kirov	Time Prostora (phase II)	42,000
Northwestern FD	St. Petersburg	Zanevskiy Kaskad (phase IV)	40,000
Volga FD	Nizhny Novgorod	Okeanis	31,876
Ural FD	Nefteyugansk	Randevu	27,600
Northwestern FD	St. Petersburg	Sputnik	25,000

* Excluding facilities in Moscow and Moscow region
Source: Knight Frank Research, 2021

future construction in 2021 with a high potential for the development of the high-quality retail real estate market. To date, construction activity is concentrated in Khabarovsk and Yuzhno-Sakhalinsk. In addition to the opening of new retail facilities, the existing shopping centers are being expanded here:

- ♦ Reconstruction and construction of the third stage of Maxi Mall (total GLA of 20.3 thousand sq. m. following the expansion) in Khabarovsk,
- ♦ Opening of the "Alleya" SEC second stage (GLA of 41.2 thousand sq. m. following the expansion) in Yuzhno-

Sakhalinsk is scheduled for May 2021. In December 2020, the first gastronomic space in the region with a farmer's market and a food hall occupying over 4,000 sq. m. was opened in the SEC.



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