*The new supply demonstrated negative dynamics compared to H1 2021 (**-41.8%**)*

*Nowadays, there are about **180** companies (including online stores, logistics and media companies) announced the suspension of their commercial and investment activities, including supplies to Russia*

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MOSCOW RETAIL MARKET REPORT

H1 2022

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Regional Director
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«In Q1 2022 the retail real estate market experienced a powerful shake-up on the back of global changes. Q2 2022 began with high uncertainty due to the suspension of international brands. By inertia, Russian companies also paused their development and got down to deal with logistical and operational issues. At the moment, Russian players just observe to decide on further steps that will depend directly on foreign retailers.»

Key indicators*

Shopping centres stock (GBA / GLA), million sq m	14.30/7.24
Opened in 2021 (GBA / GLA), million sq m	63.7/38.1
Scheduled for opening in 2022 (GBA / GLA), thousand sq m	≈218.6/≈136.6
Vacancy rate, %	13.4% (+0.9 p. p.)**
Fixed rental rent***:	
Retail gallery tenants, RUB/ sq m/year	0–180,000
Anchor tenants, RUB/ sq m/year	0–60,000
Operating expenses:	,
Retail gallery tenants, RUB/ sq m/year	6,000–15,000
Anchor tenants, RUB/ sq m/year	1,500–3,000
GLA in quality shopping centres per 1,000 citizens	573

* 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 H1 2021
*** The upper limits of rental rates refer to the most successful and high-quality shopping centres in Moscow

Source: Knight Frank Research, 2022

Key conclusions

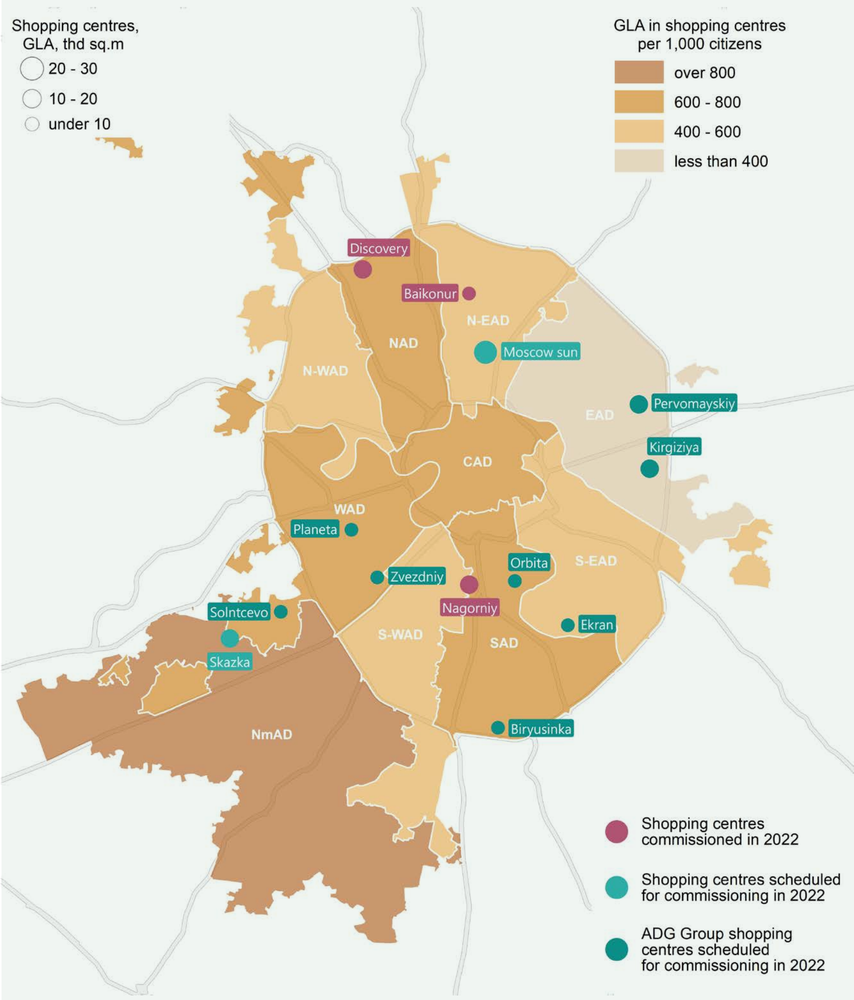
- According to the results of H1 2022, three shopping facilities were opened in Moscow – SC Discovery Shopping Mall (GLA 17,500 sq m), SC Nagorny (GLA 12,000 sq m) and SC Baikonur (GLA 8,600 sq m). However, only one was opened officially, i.e. SC Discovery.
- The new supply demonstrated negative dynamics compared to H1 2021 (-41.8%).
- The adjusted commissioning forecast for 2022 is GLA 136,600 sq m, i.e. a decrease of 57.1%.
- For 2022, the announced new supply will be in neighbourhood and district formats with GLA <30,000 sq m.
- The number of shopping malls with GLA up to 30,000 sq m planned for commissioning in 2022 increased by 44,4% over the year, while the average area of all scheduled shopping malls in 2022 decreased to 10,500 sq m, which remains in the range of spaces specific to a neighbourhood shopping mall.
- As for Q2 2022, there is a recorded increase in the shopping mall vacancy rate up to 13.4%. Compared to the previous quarter of 2022, the indicator has almost remained unchanged.
- Reduced the activity of new international retail operators: two new brands entered the Russian market, which is 71% lower y-o-y.
- Nowadays, there are about 180 companies (including online stores, logistics and media companies) announced the suspension of their commercial and investment activities, including supplies to Russia.

Supply

According to the results of H1 2022, three shopping facilities were opened in Moscow – SC Discovery Shopping Mall (GLA 17,500 sq m), SC Nagorny (GLA 12,000 sq m) and SC Baikonur (GLA 8,600 sq m). However, however only one of them – SC Discovery – was officially opened. At the end of the half-year, 38,100 sq m were commissioned in total, which is by 41.8% lower y-o-y. Taking into account the new commissioning volume, the figure of the availability of high-quality retail space for Moscow residents has not undergone major changes and equals to 573 sq m per 1,000 people.

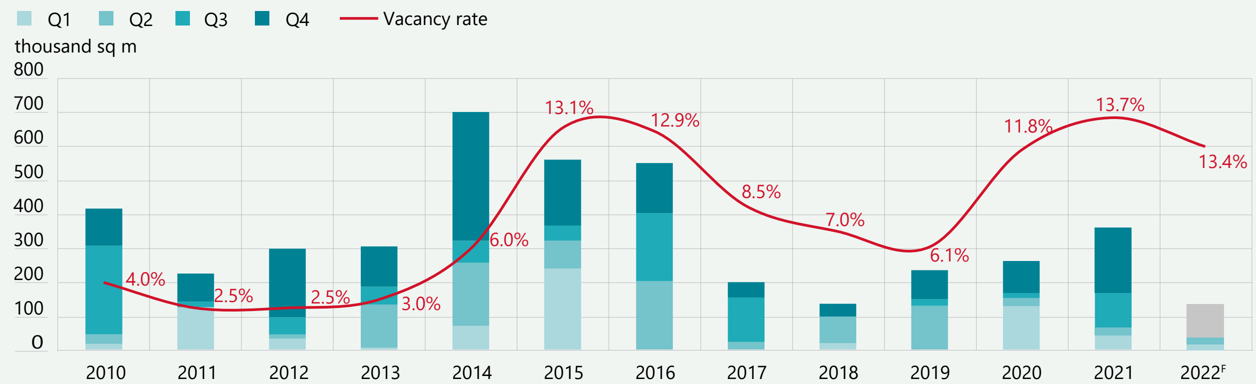
In the context of Old Moscow administrative districts, the Central, Southern and Northern districts remain the most available in terms of space. New Moscow leads in terms of vacant space (885 sq m /1,000 people) due to the small population (300,375 people). In the next three to five years, a significant increase in the population is expected due to the high commissioning of new housing on the background of low commissioning of shopping malls (mainly neighbourhood and district formats).

Shopping centres opened in H1 2022 and scheduled for opening by 2022-end.



Source: Knight Frank Research, 2022

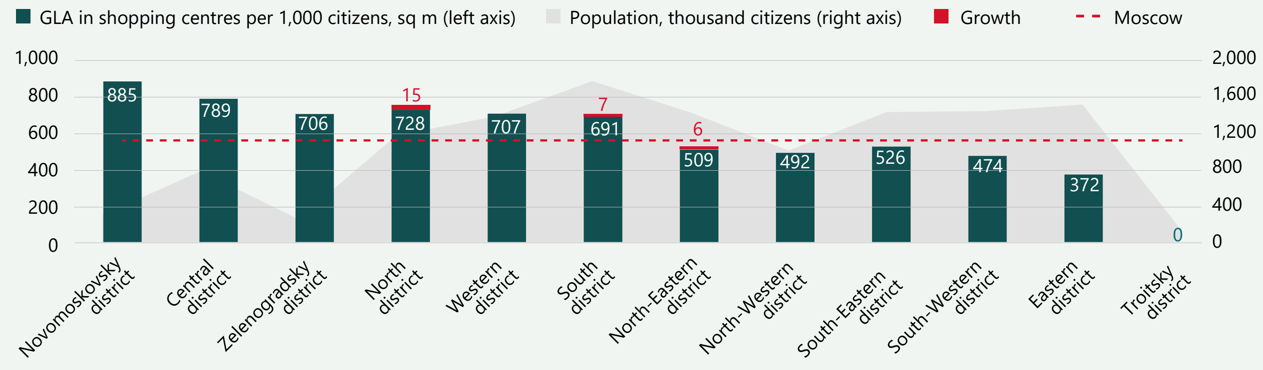
Volume of commissioned shopping centres and vacancy rate dynamic



* Уровень вакантности по итогам II квартала 2022 г.
Source: Knight Frank Research, 2022

* Technical opening

GLA in quality shopping centres per 1,000 citizens in the administrative districts of Moscow, sq m



Source: Knight Frank Research, 2022

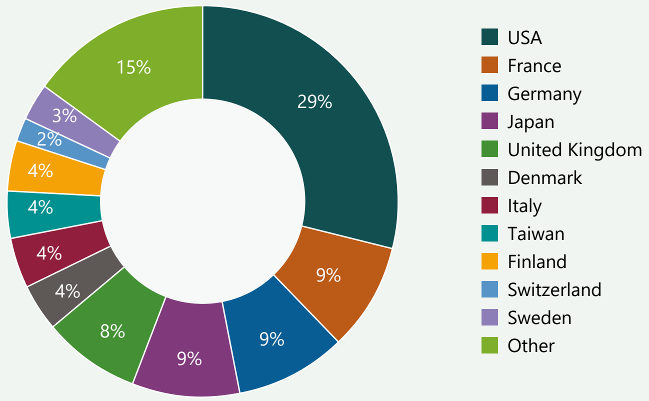
Vacancy Rate

The average vacancy rate in Moscow shopping malls grew by 0.9 percentage points relative to the same period in 2021 and amounted to 13.4%. If compared to the previous quarter of 2022, the indicator has not changed significantly. The vacancy rate growth is resulted from optimization of retail stores for retailers who have faced a strong negative impact of the pandemic and the February events. It is worth noting that the vacancy rate in many super-regional and regional facilities has risen by an average of 1-4 percentage points since the beginning of the special operation; changes in small neighbourhood and district shopping malls depended on the format and positioning of facilities, but they were in the least risk zone.

Demand

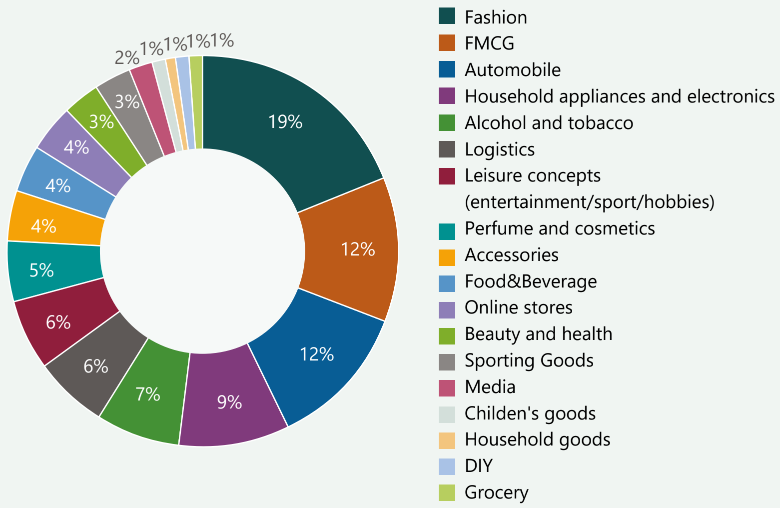
By the year-end, Turkish catering chains are planning to enter the Russian market: two fast food chains – Chitir Chicken and Yesen burger, with their investments – Little Kitchen and Arabica coffee house chain. It is known that Little Kitchen plans to open three restaurants in 2022; Arabica has scheduled the opening of the first flagship cafe store in Moscow. Currently, the entry of other tenant profiles into the market, including large Turkish clothing manufacturers adL, Mudo, LTB, Twist and Ipekyol, as well as operators from Kazakhstan and Dubai, is negotiated.

Structure of companies by countries that have limited their activities in Russia, %



Source: Knight Frank Research, 2022

Structure of company profiles that have limited their activities in Russia, %



Source: Knight Frank Research, 2022

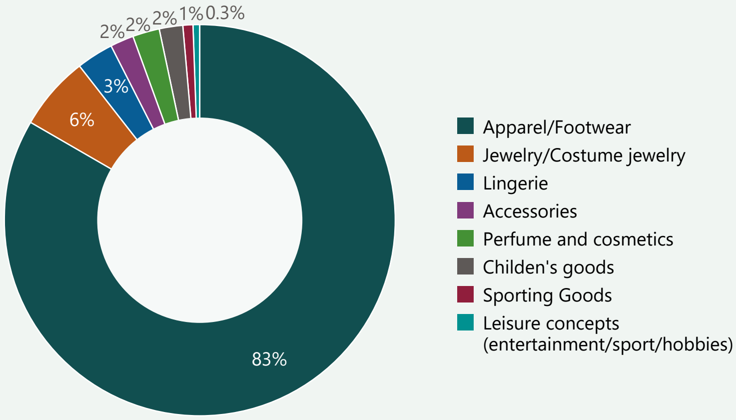
The trend of business transfer by foreign companies suspended their operation in Russia to local players or countries from the friendly list will also remain. Moreover, everyone will act differently: some foreign companies will continue to sell the business in whole or in part, while others will hand in trust the company's share to local management for a while. Such maneuvers will allow foreign retailers to return to the Russian market and continue their business in the usual format.

Nowadays, there are about 180 companies (including online stores, logistics and media companies) announced the suspension of their commercial and investment activities, including supplies to Russia. Fashion companies take the largest share in the structure of profiles (19%), followed by FMCG and automotive (12% each), with the smallest share falling on the grocery sector, DIY, household and childen's goods (1% each).

Since the beginning of the February events, more than 10 foreign brands have announced their leaving, which also adds uncertainty in the market. In addition, some businesses were reopened under new brands of retailers from the «unfriendly list» after the business suspension: L'Occitane, OBI, McDonald's (Vkusno i tochka), Reserved, House, Cropp, Mohito and Sinsay brands of LPP Group (RE, CR, M, «Sin», «Xc»), CCC (Obuv), Mango.

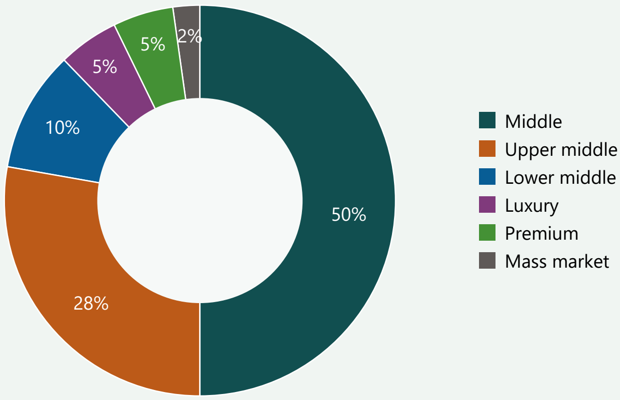
Despite the current situation, some Russian retailers continue expanding and diversifying their business in Russia. Thus, the Ural perfumery and cosmetics chain Gold Apple opened the first pilot pharmacy in the shop-in-shop format in Q2 2022, upon the results of which a decision will be made on its scaling. The St. Petersburg jewelry chain of stores 585*Golden keeps on expanding in Moscow. The company has opened a new store in the historical center in the SC Okhotny Ryad. Over the past year, 7 stores have started operating in the capital, and the total number of outlets in Moscow and the Moscow region has reached 40 if taking into account the new ones.

Profiles of local brands, %



Source: Knight Frank Research, 2022

Structure of local brands by price segment, %



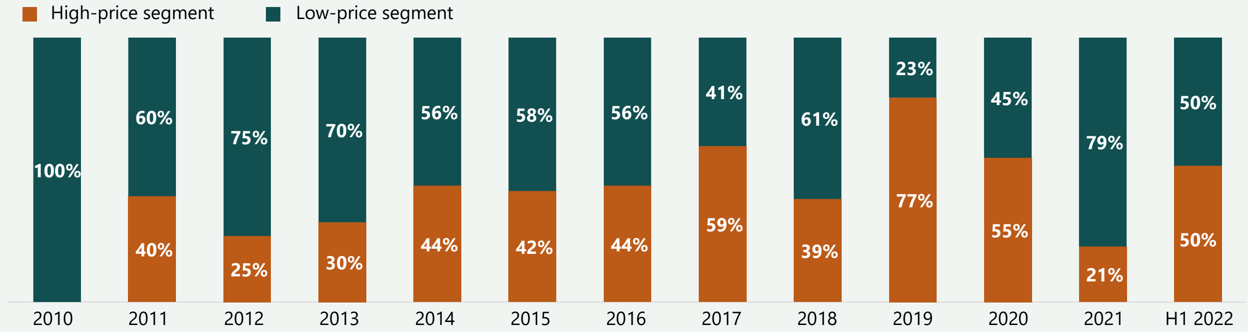
Source: Knight Frank Research, 2022

Key brands announced their leaving the Russian market

	Brand	Country of origin	Profile
1	Prisma	Finland	Grocery
2	Hesburger	Finland	Food&Beverage
3	Paulig Cafe & Store	Finland	Food&Beverage
4	Levi Strauss & Co	USA	Apparel/Footwear/Lingerie
5	Nike	USA	Apparel/Footwear/Lingerie
6	Jacquemus	France	Apparel/Footwear/Lingerie
7	Jysk	Denmark	Household goods
8	Watsons	China	Perfume and cosmetics
9	Victoria's Secret	USA	Apparel/Footwear/Lingerie
10	Starbucks	USA	Food&Beverage
11	Coty	France/USA	Perfume and cosmetics
12	IKEA	Sweden	Household goods

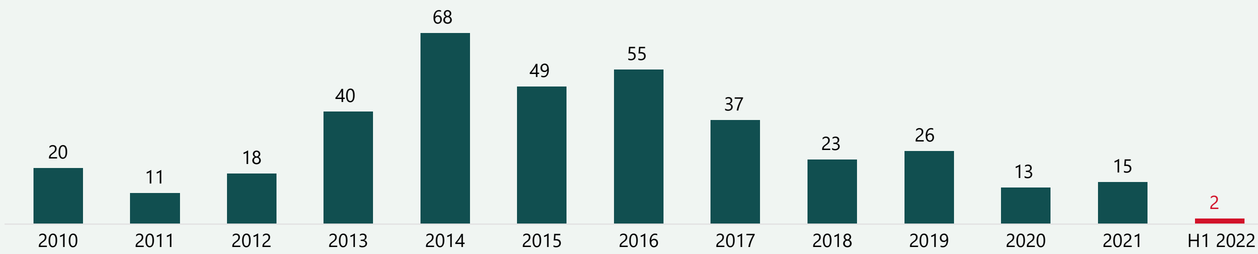
Source: Knight Frank Research, 2022

The structure of brands entered the Russian market, by price segment



Source: Knight Frank Research, 2022

Dynamics of international operators entering the Russian market



Source: Knight Frank Research, 2022

As the start of 2022 shows, Russian retailers rent on average up to 15% of retail space in modern shopping malls in Moscow. To date, 83% of the 350 Russian retailers we study operate in the fashion segment, 6% sell jewelry and bijouterie, 3% specialize in Lingerie, perfume and cosmetics, accessories, children's goods take 2% each, with sporting goods or leisure concepts (entertainment / sport / hobbies) 1% each. Half of the Russian brands operate in the middle price segment, and another one fourth – in the upper middle segment.

At the moment, there is a vehement demand from retailers for multi-format spaces in a number of large shopping malls in Moscow, many of which consumers will be able to see before the year-end. Such format, in particular, is much cheaper for startups, it is easier to promote, and traffic is much higher than in mono boutiques. Larger fashion brands, such as All we need, 12 STOREEZ, Anna Pekun, Nice One, have begun to actively consider the vacating sites.

International operators that entered the Russian market in H1 2022

	Brand	Country of origin	Profile	Price segment
1	Vilhelm perfumery	USA	Perfume and cosmetics	Upper middle
2	Li-Ning	China	Sports clothes	Middle

Source: Knight Frank Research, 2022

Brands

For 6 months of 2022, only two international brands entered the market, which is 71% lower the same period last year, when 7 new retailers entered the Russian market. In Q1 2022, a mono boutique Vilhelm perfumery was opened in the street retail format. In Q2 2022, the first Chinese sportswear and footwear store of Li-Ning brand was opened in the Krasnodar Gallery Shopping Mall in Krasnodar.

Commercial Terms

Rental rates for premises in shopping malls have changed under the influence of the geopolitical situation and showed changes depending on the facility format. Despite a certain change, the maximum base rental rates have also fall on premises in the food court area and mini-anchors in existing large facilities with high traffic and can reach 180,000 RUB/sq m/year, in neighbourhood formats – up to

100,000 RUB/sq m/year. The minimum rental rates are applied for premises with an area exceeding 2,000 sq m for anchor tenants.

So, in large conceptual shopping malls, rates have increased due to the quality of transactions on the back of reduced supply for projects under construction. Now the main volume of transactions is rotation and space with finishing, so the rental rate for such premises is much higher than for shell&core, for which the main transactions were previously made. There is an opposite trend in neighbourhood shopping malls (up to 10 years): the main supply falls on shell&core premises with discounts on repairs; therefore, the commercial supply is lower in such facilities.

Trends

Shopping malls of neighbourhood and district formats demonstrate greater resistance to crisis factors, unlike super-regional and regional facilities, as they are more focused on FMCG and less dependent on tenants from the «problem list».

According to Focus, at the beginning of the year, before the special operation, the number of checks and the turnover was comparable to the last year figures:

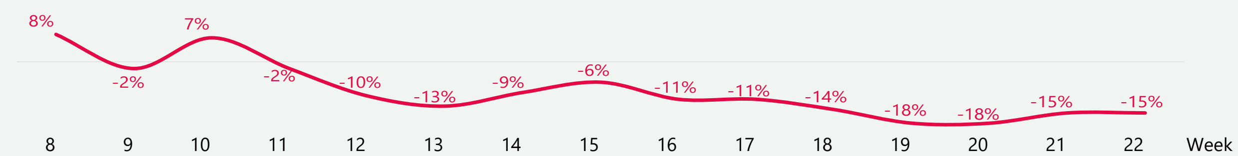
Terms of lease in Moscow shopping centres (until March, 2022)

Tenant profile		Range of base rental rates, RUB/ sq m/ year*		% of turnover
		Regional shopping centres	Neighborhood shopping centres (less than 10 years)	
Supermarket (1,000–2,000 sq m)		8 000–18 000	15 000–22 000	4–6
Supermarket (450–900 sq m)		18 000–35 000	18 000–35 000	4–7
Household goods (<1,500 sq m)		0–10 000	8 000–12 000	6–8
Household appliances and electronics (1,200–1,800 sq m)		6 000–15 000	6 000–15 000	2,5–5
Sports goods (1,200–1,800 sq m)		6 000–12 000	6 000–12 000	5–8
Children's goods (1,200–2,000 sq m)		6 000–12 000	6 000–12 000	4–8
Operators of the shopping gallery**:				
Anchors	> 1,000 sq m	10 000–20 000	0–12 000	4–10
Mini-anchors	700–1,000 sq m	15 000–30 000	0–14 000	6–10
Mini-anchors	500–700 sq m	20 000–50 000	0–15 000	6–10
	300–500 sq m	20 000–60 000	0–25 000	5–12
	150–300 sq m	40 000–100 000	8 000–25 000	6–14
	100–150 sq m	50 000–120 000	15 000–40 000	10–14
	50–100 sq m	50 000–130 000	15 000–50 000	12–14
	0–50 sq m	50 000–180 000	20 000–100 000	10–14
Leisure concepts:				
Entertainment centers (2,000–4,000 sq. m)		4 000–8 000	4 000–6 000	10–15
Cinemas (2,500–5,000 sq m)		0–6 000	0–4 000	8–10
Public catering:				
Food-courts		120 000–150 000	50 000–100 000	10–15
Cafes		50 000–90 000	20 000–80 000	12–14
Restaurants		20 000–50 000	0–25 000	10–12

* Negotiable commercial terms
** Commercial terms subject to discussion during negotiations. Rental rates exclude VAT and operating expenses

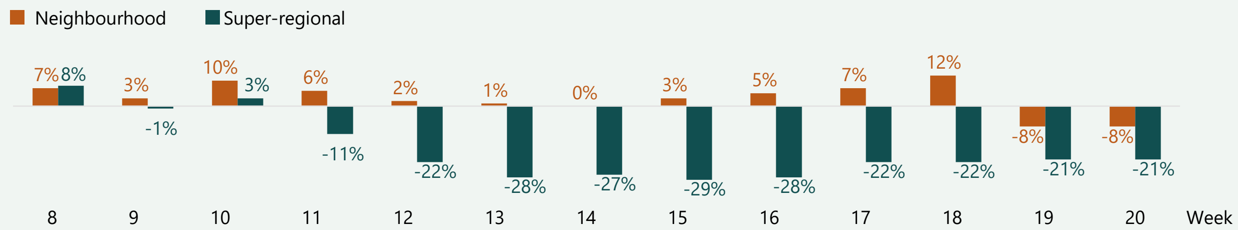
Source: Knight Frank Research, 2022

Mall Index average for the 8th-22nd weeks of 2022 as compared to the same periods of 2021, Moscow



Source: FOCUS, 2022

Mall Index for 8th-20th weeks of 2022 by shopping mall formats compared to the same periods of 2021, Moscow

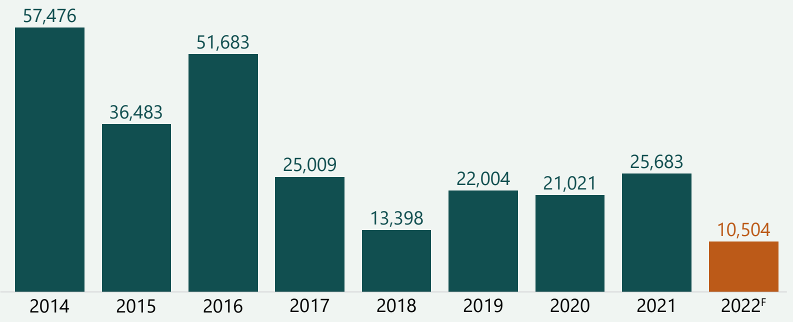


Source: FOCUS, 2022

Retail trends:

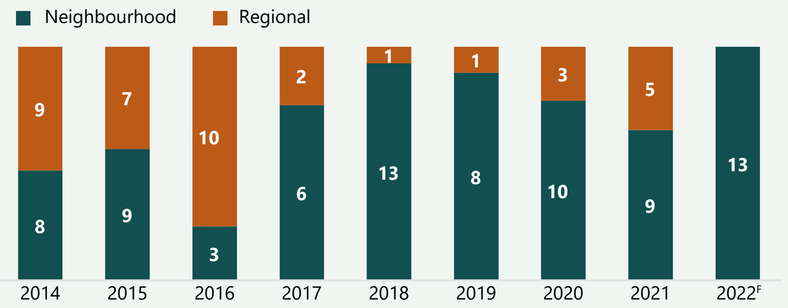
- **Increased number of shopping centres of neighbourhood formats.** Expanded supply of regional shopping centres is a response to retail trends, i.e. a changed model of consumption and consumer behavior, mobility of city dwellers. These are not just shopping malls anymore – they are infrastructure facilities ideal for conceptual experiments, such as educational lecture halls, sports clubs, image laboratories, gastronomical spaces, and much more.
- **Pivot to searching of new partners.** On the back of suspended operation of many international companies, Russian shopping centres and department stores are interested in expanding the range and opening the stores of new brands from friendly countries.
- **Restructuring of logistics chains.** Given the unstable economic situation, supply chains are disrupted, which leads to a shortage of various goods/raw materials and a price growth. In this regard, companies review the structure of their supply chain.
- **Currency outcome.** On the back of unstable exchange rate, market players and the government has begun to consider a 100% transition to ruble contracts to avoid currency risks.
- **Business transfer.** Foreign companies from unfriendly countries do their best to keep the business by placing it under management of local players or companies from the friendly list.
- **Legalization of parallel imports.** The new law will have a number of nuances, including the emergence of new supplier companies for current partners, on which the filling and assortment of stores, as well as the supply of goods will depend.

Average area of high-quality shopping centres in Moscow, sq m



Source: Knight Frank Research, 2022

Neighbourhood VS Regional shopping centres in Moscow up to GLA <30,000 sq m*



* Increase in the number of new supply
Source: Knight Frank Research, 2022

in 1st-7th weeks, there was a slight decrease in the number of cheques (-3%) and a turnover growth (+6%) compared to the same period in 2021. From the beginning of the special operation until the summer start (8th-21st weeks), there was a drop in the number of cheques (-12%) and a turnover decrease (-5%) y-o-y. Since the beginning of summer (22nd-23rd weeks), accessories/bijouterie has showed a sharp improvement, the number of cheques has lost only 2%, but the turnover in the category has added 5% compared to the same period in 2021 on the back of the summer season start.

Forecast

According to the announced plans of developers, the new commissioning in Moscow will amount to 136,600 sq m of leasable retail space by the end of 2022. Thus, the forecast of shopping mall new supply has decreased by 57.1%, while the total commissioning will be lower than last year's figure by 62.0%. The commissioning dates of many new shopping malls announced for opening in 2022 are likely to be changed.

If all the shopping facilities announced for commissioning are opened in 2022, the largest one will be MFC Moscow Sun (GLA 26,300 thousand sq m), SC Skazka (GLA 18,500 sq m), SC Discovery (GLA 17,500 sq m).

The new supply in Moscow will be formed by retail space of the neighbourhood format. Small-scale shopping malls with modern public spaces for everyday leisure and work perfectly fit into the new reality. Such shopping malls do not make visitors to waste much time, they attract attention of consumers with compactness, and the pool of tenants is increasingly focused on the functionality and price segmentation of the target group, rather than on a brand. Community centres are in demand and necessary for every day projects with a clear target group of the population, but they are also ideal for conceptual experiments.

The number of high-quality small-scale centres (GLA <30,000 sq m) planned for commissioning during the year in Moscow increased from 9 to 13 over the year, while the average area of all declared shopping centres in 2022 decreased to 10,500 sq m, which remains in the range of spaces specific to a neighbourhood shopping centre. For comparison: during the record-breaking years of commissioning (2014-2016), the average area of a shopping mall ranged from 36,500 sq m to 57,500 sq m, which is 71.2% and 81.7% higher than the current figures.

If the geopolitical situation worsens, the vacancy rate in Moscow shopping malls may increase up to 17% by the year-end, provided that no replacement options for suspended operators are worked through.

Further development of the retail real estate market will depend on the following factors:

- New construction slowdown.
- Further changes in space and formats of retail facilities.
- Expansion of leisure and sports shares (especially those applying the Luxury Low Cost model) in shopping malls.
- Programs to support Russian business, including lease agreements with the participation of the state, and social programs.
- Changes in the vacancy rate and commercial conditions on the back of suspended operation of international brands.
- Reduced size of retail spaces, including anchor tenants.
- New brands on the market in the future: local and foreign brands, including the resale of business held by players from unfriendly countries.
- Expanded supply of current and new services for customers.
- Changed consumer behavior.

Shopping centres scheduled for opening in 2022

Name	Address	GBA	GLA
Moscow Sun	Mira Ave., 119	35,000	26,250
Skazka (Rasskazovka Hub)	Borovskoye Hwy./ Korneya Chukovskogo St.	28,950	18,500
Discovery	Dybenko St., 7	25,000	17,500
Nagorny	Elektrolitnyy Dr., 16A	25,200	12,000

Source: Knight Frank Research, 2022

ADG Group facilities scheduled for opening in 2022

Name	Address	GBA	GLA
Kirgiziya	Zelenyy Ave, 81	27,810	13,449
Pervomayskiy	Pervomayskaya St., 93/20	16,227	9,662
Baikonur	Dekabristov St., 17	13,454	8,549
Ekran	Novocherkasskiy Blv., 21a	9,185	5,933
Orbita	Andropova Ave., 27	9,665	5,419
Zvezdniy	Vernadskogo Ave, 14	6,254	5,262
Planeta	Nezhinskaya St., 11	7,692	4,698
Solntsevo	Bogdanova St., 19	7,252	4,684
Biryusinka	Bulatnikovskaya St., 9a	6,904	4,646

* Subject to GBA and GLA adjustments

Source: Knight Frank Research, 2022

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