*The new supply demonstrated negative dynamics compared to Q1–Q3 2021 (**-61.5%**)*

*Since the beginning of the February events, more than **15** foreign brands have announced their leaving. About **17** international operators have rebranded and resold their businesses*

MOSCOW RETAIL MARKET REPORT

Q3 2022

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«2022 has become a new challenge for retail market, including for development. According to the results of Q3 2022, many major international players began to vacate or optimize the premises in the Moscow shopping malls, which led to the average vacancy rate increase. In the current conditions, it is difficult to forecast any pace of recovery, but we are sure that the market will continue looking for alternative ways to maintain business and find tenants for vacant space.»

Key indicators*

Shopping centres stock (GBA / GLA), million sq m	14,33/7,27
Opened in Q1–Q3 2022 (GBA / GLA), million sq m	98,7/64,3
Scheduled for opening in 2022 (GBA / GLA), thousand sq m	≈218.6/≈136.6
Vacancy rate, %	14.5% (+1.5 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	575

* 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 Q3 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 Q3 2022, 1 shopping facility was opened in Moscow – MFC Moscow sun (GLA 26,300 sq m). In just 9 months, four retail facilities with a total GLA of 64,300 sq m were opened on the market.
- The new supply demonstrated negative dynamics compared to Q1–Q3 2021 (-61,5%).
- 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 Q3 2022, there is a recorded increase in the shopping mall vacancy rate up to 14.5%. Compared to the previous quarter of 2022, the figure added 1.1 percentage points and, if compared to the same period of 2021, grew by 1.5 percentage points primarily due to the fact that international operators began to terminate lease agreements.
- Reduced the activity of new international retail operators: 5 new brands entered the Russian market, which is 55% lower y-o-y.
- Since the beginning of the February events, more than 15 foreign brands have announced their leaving. About 17 international operators have rebranded and resold their businesses.

Supply

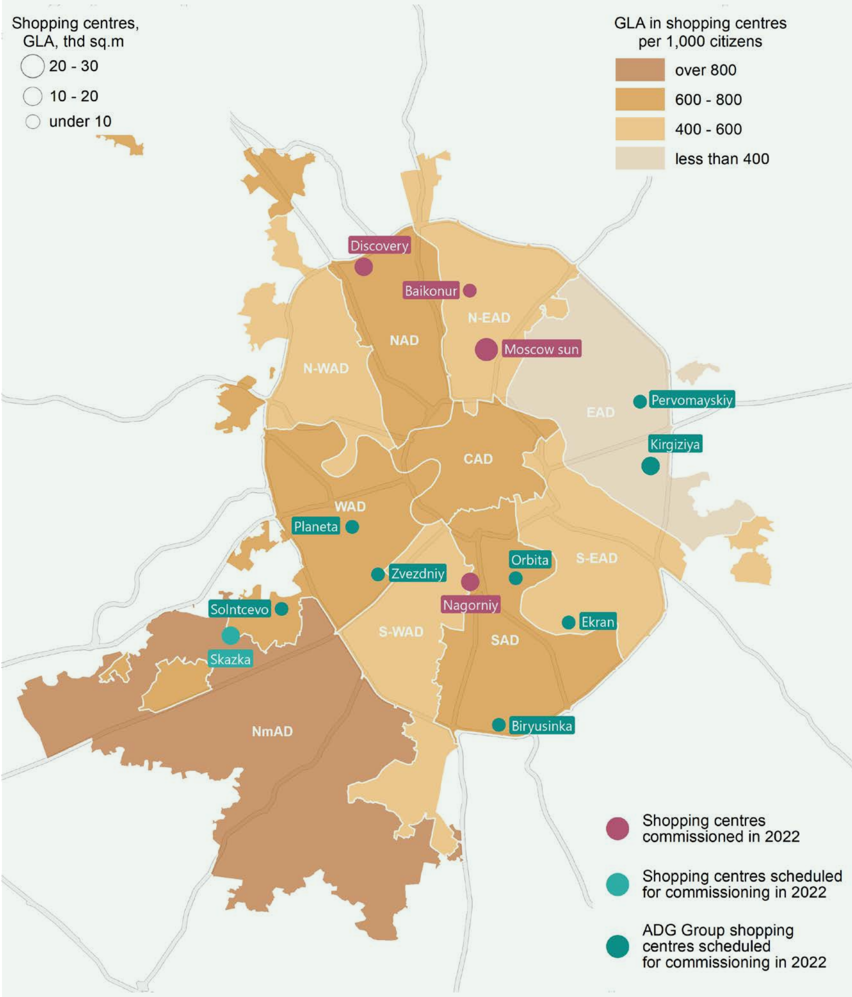
According to the results of Q3 2022, 1 shopping facility was opened in Moscow – MFC Moscow sun (GLA 26,300 sq m), 2 shopping centres have received permits issued for the commissioning: SC Skazka (GLA 18,500 sq m) and SC Orion (GLA 21,000 sq m), but the opening of the latter is scheduled for early 2023. In just 9 months, four retail facilities were opened on the market, half of which were of technical:

- SC Discovery (GLA 17,500 sq m)
- SC Nagorny (GLA 12,000 sq m)
- SC Baikonur (GLA 8,600 sq m)
- MFC Moscow sun (GLA 26,300 sq m)

At the end of Q3 2022, 64,300 sq m were commissioned in total, which is by 61.5% 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 575 sq m per 1,000 people (vs 573 sq m per 1,000 people in Q2 2022).

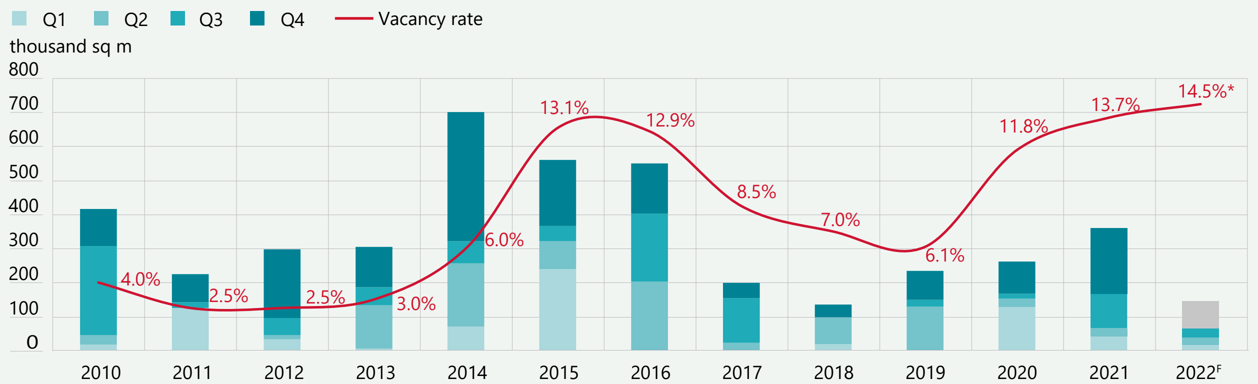
In the context of Old Moscow administrative districts, the Central, Southern and Northern districts remain the most available in terms of space. New Moscow leads in terms of vacant space (885 sq m / 1,000 people) due to the small population (300,375 people).

Shopping centres opened in Q1–Q3 2022 and scheduled for opening by 2022-end.



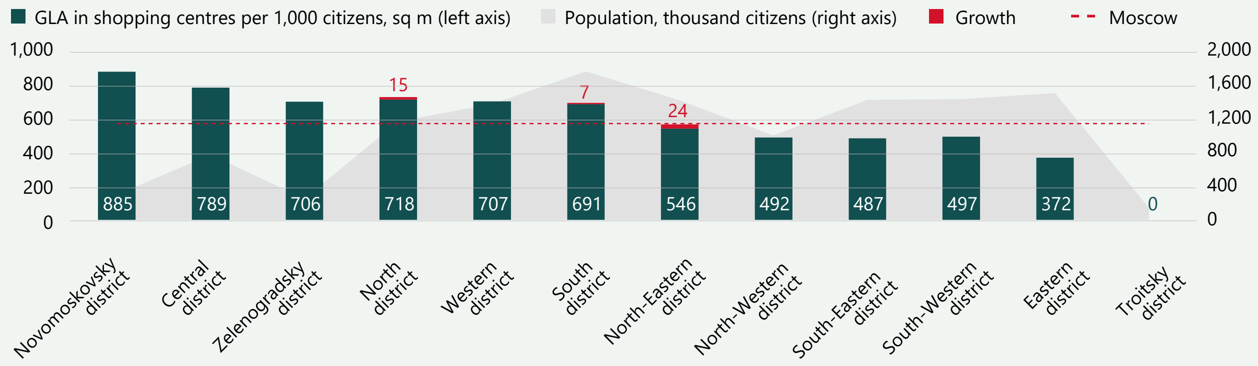
Source: Knight Frank Research, 2022

Volume of commissioned shopping centres and vacancy rate dynamic



* Vacancy rate according to the results of Q3 2022
Source: Knight Frank Research, 2022

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



Source: Knight Frank Research, 2022

Since the beginning of the year, the largest increase has been recorded in the North-Eastern Administrative District (+4%) due to the opening of the largest facility planned for 2022, i.e. MFC Moscow sun, as well as a small neighbourhood SC Baikonur by ADG Group. In the Northern and Southern Administrative Districts, the figures added 2% and 1%, respectively. In the next 3–5 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).

Vacancy Rate

The average vacancy rate in Moscow shopping malls grew by 1.5 percentage points compared to the same period in 2021 and amounted to 14.5%. The figure increased by 1.1 percentage points relative to the previous quarter. The vacancy rate growth is resulted from optimization of retail stores faced with the negative impact of the pandemic and the February events and the leaving of international brands that occupied large premises in major shopping facilities of Moscow. Despite this, the vacant spaces are gradually taken by new tenants, which hinders the entry of a large vacancy supply to the market. One of the ways to lease large premises that are most often vacated is to split them into smaller ones, which increases the attractiveness for potential tenants, reduces opex and capex.

It is worth noting that since the beginning of the special-forces raid, the vacancy rate in large facilities has grown by an average of 2.3 percentage points per annum (compared to Q1 2022); changes in neighbourhood and district shopping malls (up to GLA 30,000 sq m) depended on the facility format and positioning, but they were in the least risk, as the level of vacant space there was reduced by an average of 2.9 percentage points compared to Q1 2022.

Demand

By the year-end, Turkish catering chains are planning to enter the Russian market: 2 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, Belorussia and Italy is negotiated. In addition, it is planned to launch the Armenian brand Alex YVN in the near future, which should occupy the former premises of Oysho (250 sq m) in SC Afimall. Moreover, there is an active expansion of department stores and multi-brand stores as part of shopping malls and outlets. For example, Telegraph has already three stores in Moscow, two of which were opened in Moscow in Q3 2022, i.e. in SC Afimall and SC Zelenopark. Contracts for similar formats are at the signing stage.

For the today's buyer, additional opportunities for spending free time, leisure and personal development, including an emotional component in the shopping process, are of increasing importance. Shopping centre owners are aware of the growing importance of attracting new-concept entertainment operators to the facilities due to their ability to generate traffic. Neighbourhood shopping centres prove to be a fairly stable business segment, as they give the neighbouring visitors the opportunity to switch off their problems and spend time together close to their homes. Despite a significant drop in traffic and turnover, the film industry should not completely disappear or be replaced by other tenants, as today it is one of the main formats of leisure activities for the whole family without age limits. However, the sector requires significant support from the owners of the shopping malls and the government: for example, the Pushkin card encourages young people to visit cinemas more often. Similar programs are being discussed for schoolchildren, which should both support the industry and increase the customer loyalty.

In the shopping malls with excessive cinema areas, the cinema formats can undergone optimization with further attraction of entertainment or sports operators to the vacant space.

By the year-end, 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.

Since the beginning of the February events, more than 15 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 etc.

Despite the current situation, some Russian retailers continue expanding and diversifying their business in Russia.

The leaders in opening and introducing new formats in 2022 are two Moscow shopping malls – Afimall and Aviapark.

This summer, Moscow saw the grand opening of Telegraph department store with an area of 904 sq m that hosts primarily the Moscow designers and was established in cooperation with the Moscow Government.

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	Nike	USA	Apparel/Footwear/Lingerie
5	Jacquemus	France	Apparel/Footwear/Lingerie
6	Jysk	Denmark	Household goods
7	Watsons	China	Perfume and cosmetics
8	Victoria's Secret	USA	Apparel/Footwear/Lingerie
9	Coty	France/USA	Perfume and cosmetics
10	Sandro*	France	Apparel/Footwear/Lingerie
11	Maje*	France	Apparel/Footwear/Lingerie
12	Mothercare	United Kingdom	Children's goods
13	Moncler	Italy	Apparel/Footwear/Lingerie
14	Lush	United Kingdom	Perfume and cosmetics
15	Converse	USA	Apparel/Footwear/Lingerie
16	Lindt	Switzerland	Grocery
17	Triumph	Germany	Apparel/Footwear/Lingerie

* Announced their intention to leave

Source: Knight Frank Research, 2022

Key brands that have returned to the Russian market

	Brand	Country of origin	Rebranding/Sale
1	L'Occitane	France	Rebranding
2	OBI	Germany	Sold to the Russian company and rebranding
3	McDonald's	USA	Sold to the Russian company and rebranding – Vkusno i tochka
4	LPP Group brands Reserved, House, Cropp, Mohito и Sinsay	Poland	Rebranding – RE, CR, M, Sin, Xc
5	CCC	Poland	Rebranding – Obuv
6	Levi's	USA	Rebranding – JNS/JEANS'a
7	Helly Hasen	Norway	Rebranding – Hansen
8	Reebok	USA	Sneaker Box (sold to the Turkish FLO)
9	Starbucks	USA	Sold to the Russian company and rebranding – Stars
10	Samsonite	USA	Rebranding – ChemodanPro
11	Mango	Spain	Franchisee
12	Deichmann	Germany	Sold to the Russian company and rebranding
13	Crocs	USA	Local management (KLER), partial reopening
14	TOUS	Spain	Reopening through a partner – Rashel group
15	Pizza Hut	USA	Sold to the Russian company Noy-M
16	KFC	USA	Sale negotiations
17	Sephora	France	Local management

Source: Knight Frank Research, 2022

New tenants now occupy the former Inditex stores: the multi-brand boutique Slepaya kuritsa shoes (Zara Home), Tezenis underwear store and BY household goods (Zara Men), women's clothing stores of Russian brands such as Emka, 2MOOD, Mavelty and Charuel (Zara and Zara Kids), Williams Et Oliver store of household goods (Stradivarius). On the 3rd of November, the opening of YOU women's clothing brand is scheduled as one of the new tenants of the shopping mall.

SC Aviapark has distinguished by hosting one of the largest LIMÉ store in the new format with an area of 1,000 sq m. It is worth noting that the Russian brand will continue its expansion in the market and add men's and children's lines. According to preliminary data, new lines are scheduled for Q1 2023. Street Beat store has also been «refreshed» in the shopping mall. Now, its total area is 650 sq m and it has become the largest store in the chain. Trend Island has hosted the first pop-up store The Blue Store, with MIE, JNS, N.O.M.i, ChemodanPro (ex. Samsonite) in galleries of the shopping mall, including corner of LOLOCLO.

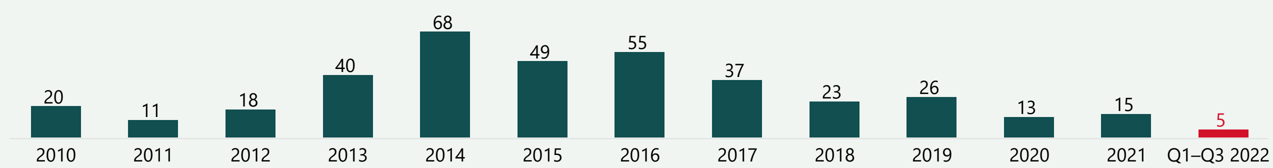
Feelz, a store of the youth brand, has been opened in SC Atrium. It positions itself as an alternative to the Western brands Monki (H&M group) or Bershka (Inditex group) that have left Russia. The brand is already represented in four shopping malls of Moscow and one in Ufa. In August, CHARUEL flagship store was also opened on the 2nd floor. ILCOTT multi-brand store was opened in SC Riviera. In addition, the Children Swimming Center Mom, I'm Swimming was opened on the 2nd floor there. SC Salaris has hosted a stand-alone store of Abricot brand created by an international team from Russia, France and Italy in France in 2018. In July, L'Etoile perfume and cosmetics store was opened in Shchelkovsky Shopping Mall on the 1st floor. Later, Osteria Mario restaurant and LOLOCLO store joined the new tenants. The new LOLOCLO flagship store was also opened in SC Evropeisky. Boggi Milano men's clothing store and DIVNO plus-size clothing store were opened in Metropolis Shopping Mall. In addition, SC Oceania held a pop-up fair of designer brands The Cube on the 1st floor. New clothes and accessories of Russian fashion designers are presented at a single place.

Further development plans were announced by many brands, for example, the Chinese clothing brand Li-Ning, which has already opened its first outlet in Russia in the SC Krasnodar Gallery in H1 2022. Company Crockid, which operates Crockid, Cubby and Very Neat children's and women's clothing stores, plans to occupy the vacated space of the British Mothercare chain after their closure. EMKA is working on expansion of its chain of stores. By the end of 2022, it is planned to open five new stores, with tripling its number by 2024. Melon Fashion Group expands the range and new lines of clothing and accessories to increase the area of stores: ZARINA – 600-800 sq m, Befree – up to 2,500 sq m, LOVE REPUBLIC – 500-700 sq m, Sela – 700-900 sq m.

Brands

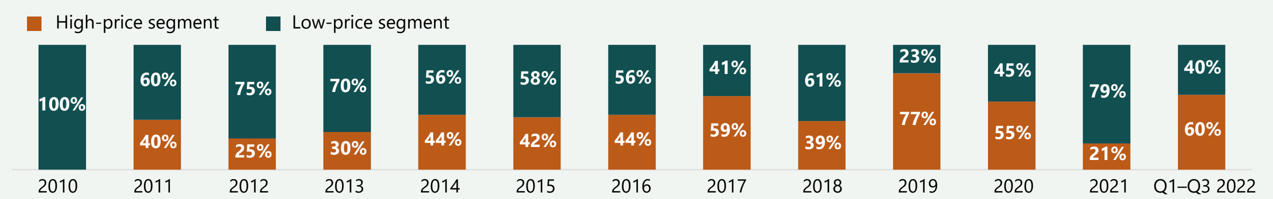
For nine months of 2022, only 5 international brands entered the market, which is 55% lower the same period last year, when 11 new retailers entered the Russian market. Thus, a mono boutique Vilhelm perfumery was opened in the street retail format, the first Chinese sportswear and footwear store of Li-Ning brand was opened in the Krasnodar Gallery Shopping Mall (Krasnodar), as well as another Chinese sportswear brand ANTA Sports in Tsentralny Shopping Mall (Chita). The Turkish clothing brand Perspective, which currently has five stores in the shopping malls of Russia, entered the Russian market in the spring of 2022. Coffee Boom, the leading coffee chain of Kazakhstan and Uzbekistan, has opened its first coffee shop in the SC Oceania. In addition, the first Japanese

Dynamics of international operators entering the Russian market



Source: Knight Frank Research, 2022

Structure of brands entered the Russian market, by price segment



Source: Knight Frank Research, 2022

International operators that entered the Russian market in Q1–Q3 2022

	Brand	Country of origin	Profile	Price segment
1	Vilhelm perfumery	USA	Perfume and cosmetics	Upper middle
2	Li-Ning	China	Sports clothes	Middle
3	Coffee Boom	Kazakhstan	Food&Beverage	Middle
4	ANTA Sports	China	Sports clothes	Upper middle
5	Perspective	Turkey	Apparel/Footwear/Lingerie	Upper middle

Source: Knight Frank Research, 2022

brand of innovative skin devices L&L SKIN opened a small corner in Atrium and Aviapark Shopping Malls.

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.

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.

Rental conditions in Moscow shopping malls

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

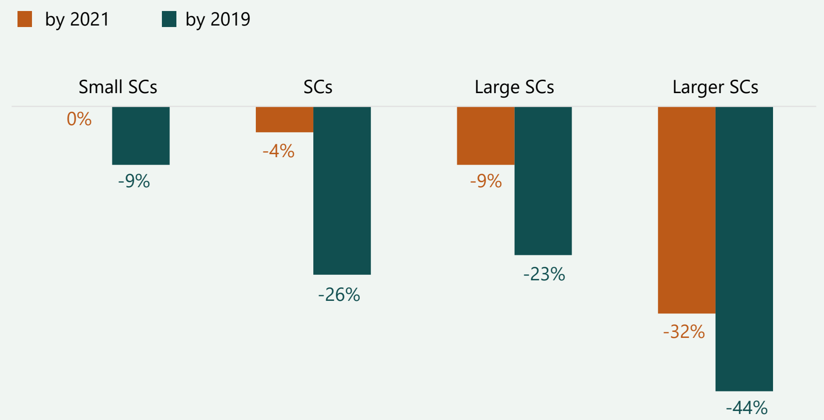
Source: Knight Frank Research, 2022

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».

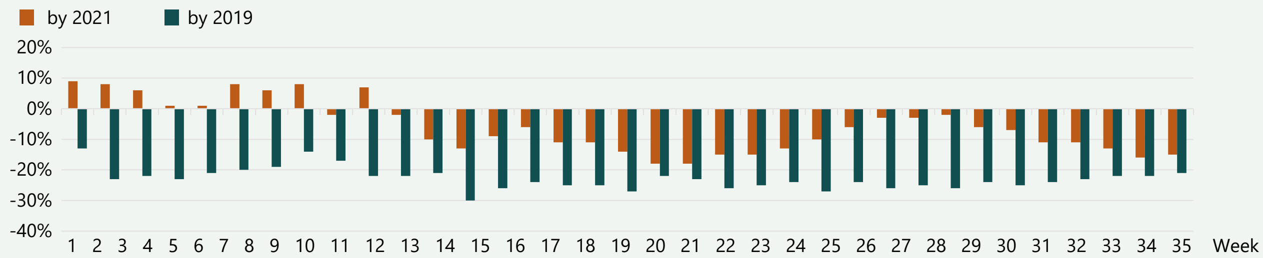
According to Focus data, until the 10th week of 2022, the average number of visitors to Moscow shopping malls was by 5% higher than that in 2021; since the 11th week (since the beginning of March), the traffic has decreased. Mall Index for March – April lost 10% as compared to the same period in 2021. According to the results of 35 weeks of 2022, the gap was 6% from the level of 2021 and 23% from the level of 2019.

Mall Index August 2022 compared to the same periods of 2021 and 2019 by shopping mall formats, Moscow



Source: FOCUS, 2022

Mall Index average for the 1st-35th weeks of 2022 as compared to the same periods of 2021 and 2019, Moscow



Source: FOCUS, 2022

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.

Forecast

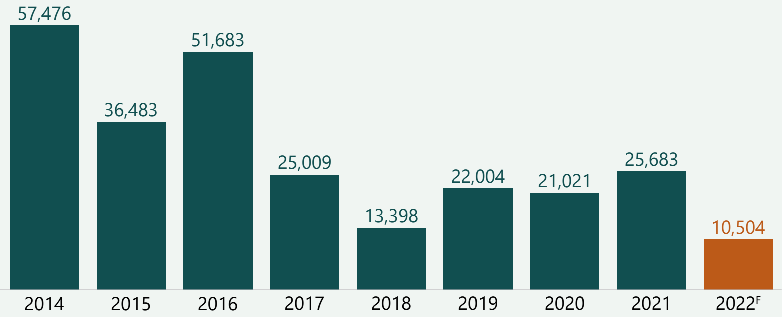
According to the announced plans of developers, the new commissioning in Moscow will amount to 136,600 sq m of leasable retail space by the end of 2022. Thus, the forecast of shopping mall new supply has decreased by 57.1%, while the total commissioning will be lower than last year's figure by 62.0%.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

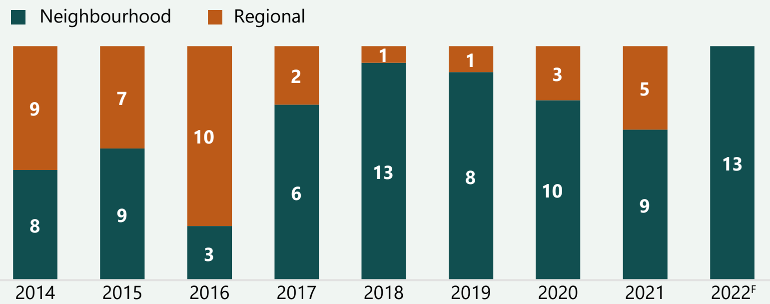
The number of high-quality small-scale centres (GLA <30,000 sq m) planned for commissioning during the year in Moscow increased from 9 to 13 over the year, while the average area of all declared shopping centres in 2022 decreased to 10,500 sq m, which remains in the range of spaces specific to a neighbourhood 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.

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

MFC Moscow sun

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.

TShopping 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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