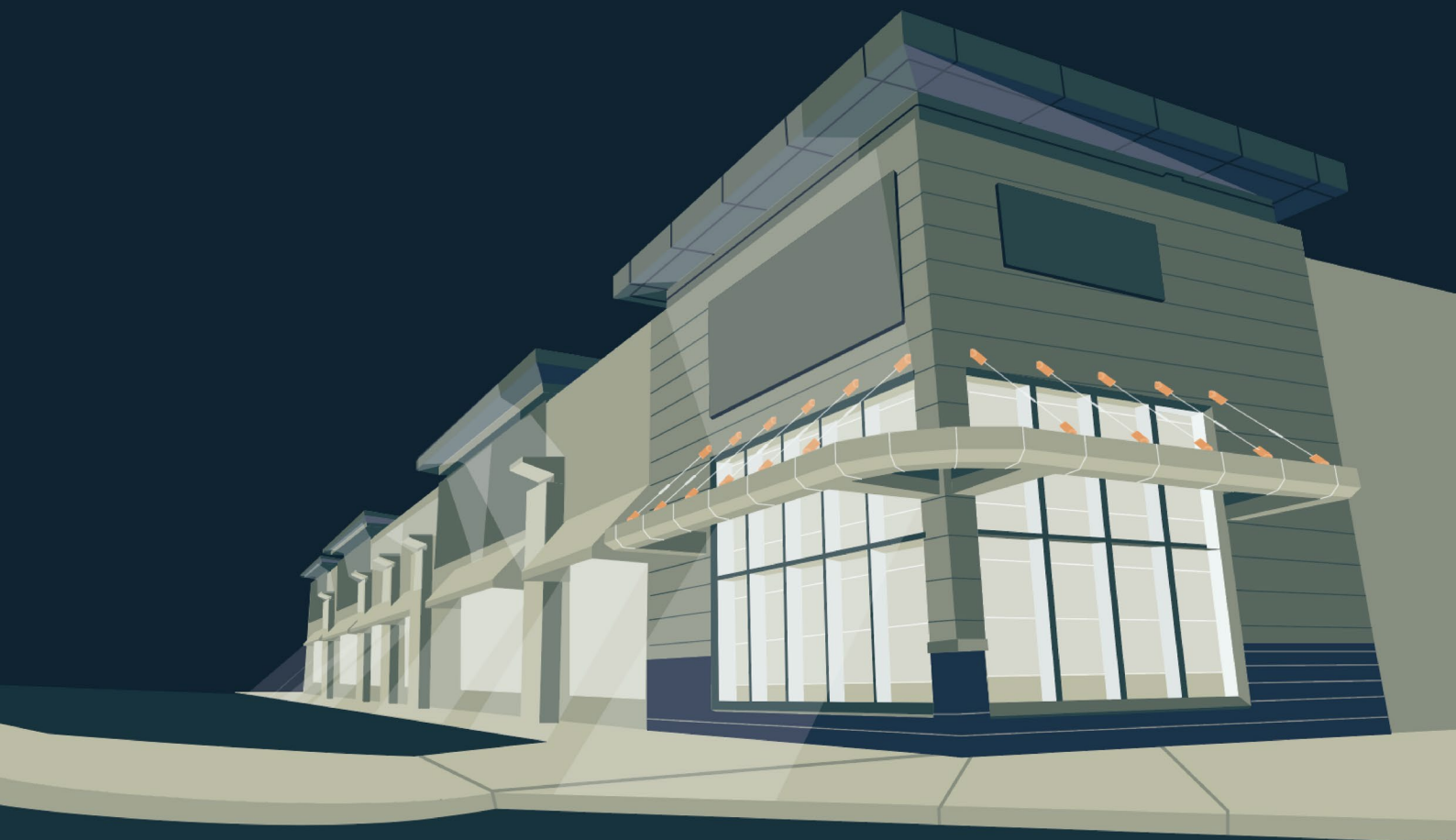





RETAIL MARKET MOSCOW

H1 2020



KEY MARKET INDICATORS

	H1 2018	H1 2019	H1 2020
 Total stock of quality retail space, million sq m	7.0	7.2	7.6
 Completions, thousand sq m	98.5	105.0	284.2
 Number of quality shopping centres opened over the period	3	1	4
The vacancy rate, %	7.5%	8.5%	10.2%

SUPPLY

In the last three months of 2020, three new projects were added to the market of high-quality retail real estate in the Moscow region: Stolica (GLA 8,500 sq m), The Outlet Moscow (GLA 19,700 sq m) and Kvartal West (GLA 66,000 sq m). In total in H1 2020, four retail facilities were commissioned with a total leasable area of 284,200 sq m. This is the highest rate of commissioning in the first half of the year for the last 5 years. The total volume of retail space introduced in H1 this year was more than half (61.1%) of the projected volume of input for the whole of 2020.

According to the results of the first half of the year, the total supply of retail space in Moscow was 7,645,000 sq m, which equates to 603 sq m of retail space per 1,000 residents.

FIGURE 1:
Commissioning of retail space in professional shopping malls in Moscow and satellite cities by half-year, 2010-2020

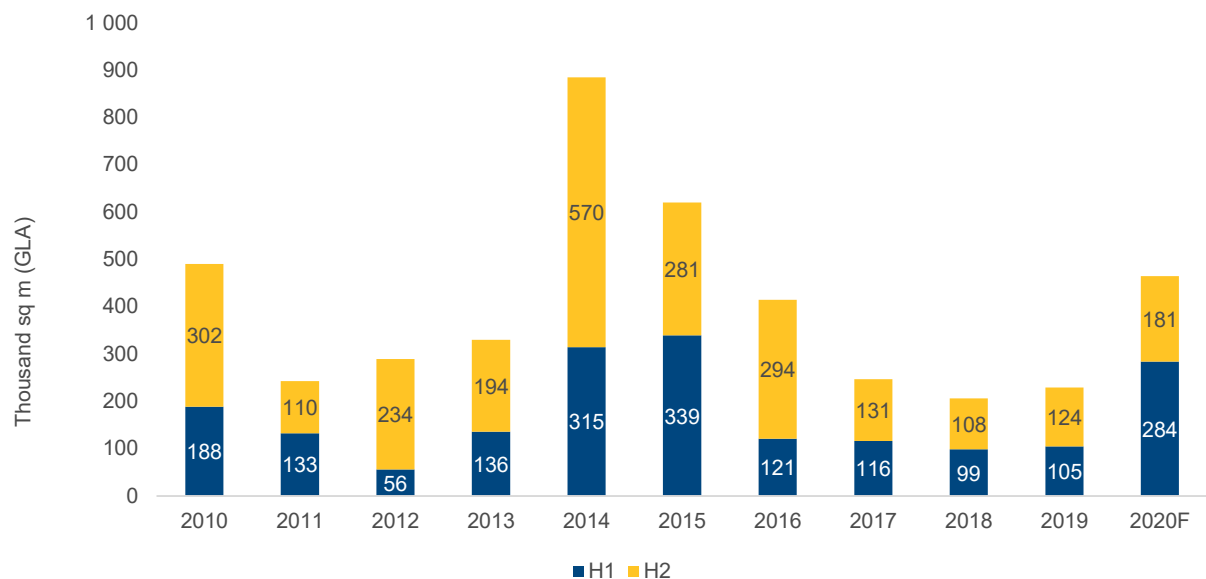
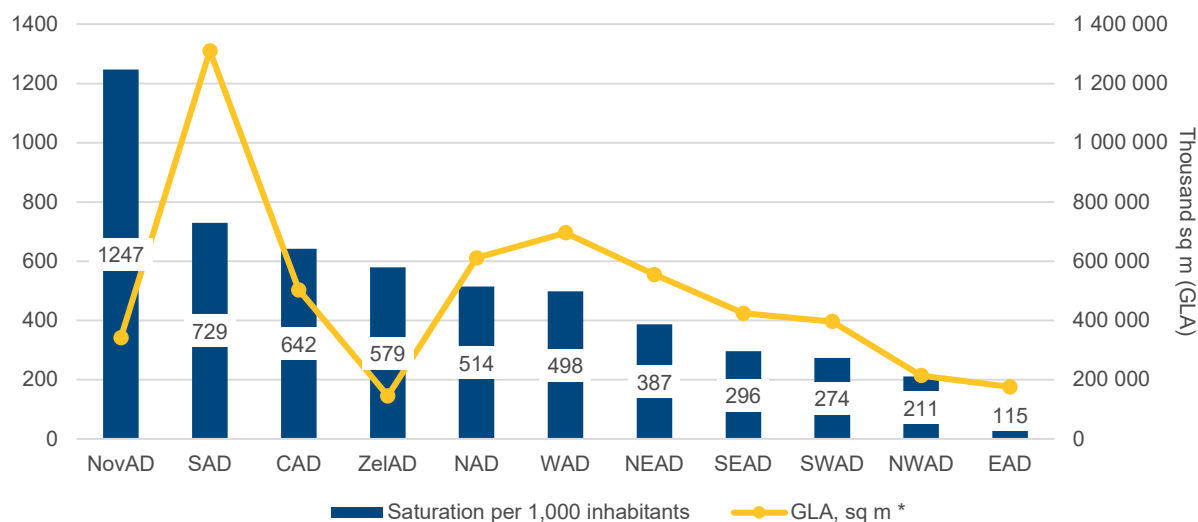


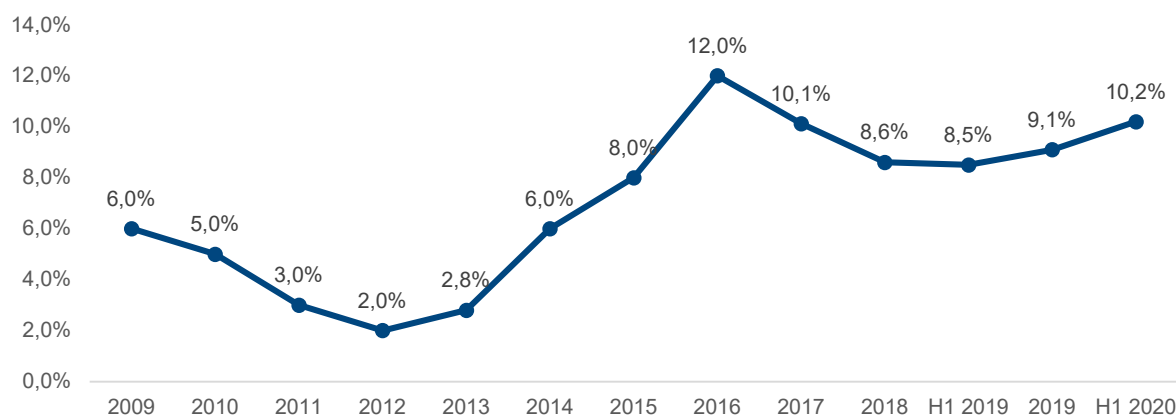
FIGURE 2:
Saturation and distribution of retail space by administrative districts of Moscow



* existing professional shopping centers
 Source: Colliers International

- Novomoskovsky Administrative District remains the most affluent shopping area in Moscow, primarily due to its low population density (1,247 sq m per 1,000 people), while the least affluent is the Eastern Administrative District (115 sq m per 1,000 people). The largest increase in saturation for H1 2020 was observed in the Southern Administrative District (+17.0%), Western Administrative District (+10.5%) and Novomoskovsky Administrative District (+2.5%) districts.
- From the point of view of geographical distribution, the largest share of leasable space in facilities scheduled to open in 2020 is in the SAD (49.5 %), EAD (16.6%) and WAD (15.8%), and the lowest is in NAD (3.1%) and SEAD (1.5%).
- Against the background of the commissioning of a record volume of retail space and reduced demand, the vacancy rate in Moscow's shopping centres in H1 2020, calculated based on opened stores, increased to 10.2%.

FIGURE 3:
Change in vacant retail space in professional shopping centers in Moscow



Source: Colliers International

Several shopping centres that were previously planned to open in H1 2020 – Shchelkovsky (GLA 70,000 sq m), Gravitacia (GLA 18,500 sq m) and the second phase of Smolenskiy Passage (GLA 14,800 sq m) – postponed their opening to the end of 2020. Also, the opening of ADG Group shopping centres (a total GLA area of 38,700 sq m) was shifted to Q3 2020. This means that the annual volume of planned commissioning is 464,800 sq m. However, given the risks of delays in projects that have been postponed to a later date, the actual commissioning may be lower than planned.

TABLE 1: Key shopping centers announced for opening in 2020 in Moscow and satellite cities

SC NAME	GLA, SQ M	CITY	DEVELOPER	OPENING QUARTER
Dream Island	190,000	Moscow	Regions Group	1
Kvartal West	66,000	Moscow	Tashir	2
The Outlet Moscow	19,676	Moscow	Hines	2
Stolica	8,500	Moskovsky	Stolica Management	2
Vnukovo Premium Outlet	12,000	Moscow	Rumyantsevo	3
Elbrus	4,573	Moscow	ADG Group	3
Rassvet	6,535	Moscow	ADG Group	3
Neva	5,852	Moscow	ADG Group	3
Mars	5,338	Moscow	ADG Group	3
Budapesht	9,911	Moscow	ADG Group	3
Vysota	6,000	Moscow	ADG Group	3
Kvarc	8,500	Moscow	ALCOR	4
Smolenskiy Passage (2 nd phase)	14,800	Moscow	Safmar	4
Shchelkovsky	70,000	Moscow	Kievskaya Ploshchad	4
Gravitacia	18,500	Moscow	Synterra Construction	4
Skazka	18,608	Moscow	TIH Rasskazovka/ SMS	4
Total	464,794			

DEMAND

In the first six months of 2020, 12 new international brands entered the Moscow market. Most of the openings were in the format of corners in the TSUM department store. Recent openings include the Danish furniture store JYSK in the Troika shopping centre and clothing and accessories brands Casablanca, Low Classic and Gu De in TSUM department store.

Since Q2 2020, most retailers have taken active measures to reduce costs. These include negotiating optimal lease terms, adjusting the choice of suppliers, reducing advertising costs, optimizing the number of stores and expanding online sales channels. Optimisation measures were primarily taken against the background of reduced demand for products that buyers did not consider necessary. One of the affected segments was jewelry — several retailers and manufacturers, including Adamas, Moscow Jewelry Factory and 585, announced a reduction in the number of stores and the optimisation of their chains. The catering segment also suffered during the period of restrictive measures due to the inability to fully operate their businesses (establishments offered takeaway service only). Restaurants and cafes were helped by major online food delivery operators (Delivery Club and Yandex.Food), as well as food retailers. Through joint efforts, food retailers VkusVill, Perekrestok and Lenta merged with restaurants and cafes — now ready-made products of establishments such as Anderson, Novikov Group restaurants, Oisii, Receptor and Shokoladnitsa are available on shelves.

During the period of forced digitalisation, many non-food retailers adapted their range of products. Thus, many online stores and marketplaces (for example, Lamoda, OZON, Citilink and Positronica) expanded their range of food and household goods. Some retailers have started to delivery goods directly from warehouses, bypassing stores. In the medium term, it is expected that sales directly from the buyer's warehouse will increase and new ways of implementing this sales model will appear. In addition, retailers have begun to actively cooperate with other categories of tenants that are not necessarily mutually complementary. For example, DNS, one of the largest electronics and home appliance chains in Russia, announced an agreement with X5 Retail Group: a subsidiary of 5Post began delivering orders from the DNS online store to its own automated parcel lockers located in Pyaterochka stores. In addition, X5 Retail Group has announced the launch of an online order delivery service from M.Video and Eldorado. The project was first launched in Moscow and the Moscow region, where orders are delivered to more than 2,000 pick-up points and automated parcel lockers in stores of the Pyaterochka retail chain.

TABLE 2: Key collaborations in H1 2020

NAME	LOCATION	CATEGORY
X5 Retail Group / DNS	Grocery Pyaterochka	Grocery / Home appliances and electronics
X5 Retail Group / M.Video — Eldorado	Grocery Pyaterochka	Grocery / Home appliances and electronics
VkusVill / Receptor / Iepim i varim / Oisii и др.	Grocery VkusVill	Grocery / F&B
X5 Retail Group / Anderson / The restaurants of the network Novikov Group	Grocery Perekrestok	Grocery / F&B
Lenta / Shokoladnitsa	Grocery Lenta	Grocery / F&B
Lamoda / VkusVill	Online store	Marketplace / Grocery

LOCKDOWN

In Russia, the epicenter of the outbreak was Moscow, the focal point of tourist and passenger traffic, which allowed the virus to spread faster through major transport hubs. According to the Federal Air Transport Agency, Moscow airports — Sheremetyevo, Domodedovo and Vnukovo – served 101.69 million passengers in 2019, which is 5.7% more than a year earlier.

Since March 28, corona-related restrictive measures have been in place in the regions of Russia, including in the Moscow region. All cafes, shopping and entertainment centers and cinemas were closed, public transport stopped working in some regions and visits to religious institutions were forbidden. From March 30 to May 12, retail outlets were closed everywhere, except for stores with necessities and system-forming enterprises.

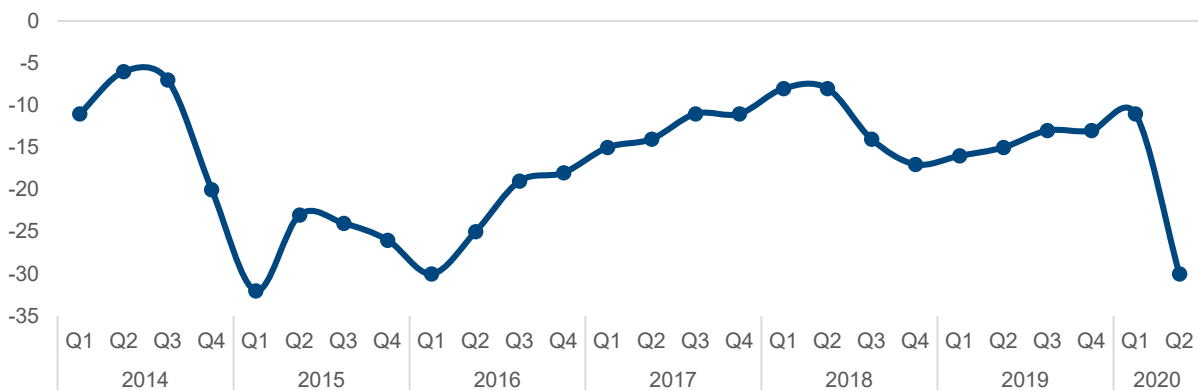
TABLE 3: Chronology of introduction and removal of restrictive measures in Moscow and the Moscow region

Data	Moscow	Moscow region
10.03	Prohibition of mass events	
16.03	Prohibition of mass events	
23.03	Expansion of list of systemic companies (from 200 to 600 companies)	
25.03	Closing of leisure establishments	
28.03	Closing of restaurants, shops, services, shopping centres (except for convenience stores and pharmacies)	
30.03	Beginning of the all-Russian weekend (self-isolation), complete closure of borders	
13.04	Suspension of the activities of most organizations	
16.04	Introduction of a pass-through mode	
12.05	End of the all-Russian output, the introduction of mask mode	
23.05	Removing the pass mode	
01.06	Opening of shopping centres (without the entertainment part) and non-food stores (up to 400 sq m)	Opening of non-food stores (up to 400 sq. m)
03.06	Opening of beauty salons and spa services	
08.06	Partial allowed entry and exit from the country	
09.06	Removing the pass mode, opening of beauty salons	
12.06	Opening of restaurants and cafes (veranda)	
16.06	Opening of restaurants and cafes (veranda)	
23.06	Fully opened restaurants and cafes, gyms	
25.06	Opening of shopping centres (without entertainment part)	
13.07	Removal of restrictions on the operation of amusement rides and leisure organizations	
15.07	Removal of restrictions on the operation of amusement rides and leisure organizations	
01.08	Opening of cinemas, concert halls, theaters (no more than 3000 seats and with the condition of filling the auditorium for no more than 50%)	

MACROECONOMICS

The decline in retail turnover and real disposable income combined with rising consumer prices has affected the market. According to Rosstat data, retail turnover in Russia in May 2020 fell by 19.2% in comparable prices compared to the same period last year. The decrease in the indicator for the first five months of this year was 6.1% in annual terms, and the growth in consumer prices was 2.7% in annual terms. According to the Ministry of Economic Development, the real disposable income of Russians in the first three months of 2020 decreased by 0.2% in annual terms.

FIGURE 4:
Consumer confidence index, as % of the previous quarter



The consumer confidence index, which reflects the total consumer expectations of the population, decreased by 19 percentage points in Q2 2020 compared to Q1 2020 and amounted to -30%. Since Q1 2014, the lowest value of the index (-32%) was recorded in Q1 2015. A value of -30% was registered in Q1 2016 and Q2 2020.

FIGURE 5:
Real disposable income of the population, as % of the corresponding period



Real disposable cash income in Russia is estimated to have decreased by 8.0% in Q2 2020 compared to the corresponding period of the previous year, and it decreased by 3.7% in H1 2020 compared to H1 2019.



FORECAST

- According to our forecasts, about 180,600 sq m of high-quality retail space will enter the retail real estate market in the Moscow region in H2 2020. In addition to district shopping centres, the main sources of supply of new high-quality retail real estate in 2020 will be shopping centers located as part of transport hubs (Shchelkovsky, Skazka) and the MUC (Smolenskiy Passage).
- High-quality, high-demand shopping centres could reach the end of the year with zero vacancies, having maintained a rotation of 10-15% of tenants during this period. In facilities that were experiencing difficulties even before the pandemic, the vacancy rate may increase by 25-30%, and management companies will need a whole set of measures to restore the position of shopping centres.
- We expect that, as in previous crises, the current situation will affect the rate at which new shopping centres open in the region — perhaps, new projects under development will be put on pause until the situation stabilises and we understand the expectations for the profitability of projects and the speed of recovery of the consumer market.
- The gradual improvement of the economic situation will give a new impetus to the entry of new brands into the Russian market in the format of single-brand stores and the development of existing retail chains in various new concepts. However, we should not expect the aggressive expansion of retailers that was observed in the pre-crisis period.
- Easing restrictions in the middle of the second quarter and a sharp reduction in interest rates in June, without affecting the rouble, strengthened hopes for a recovery in GDP growth of just over 3% in 2021, according to forecasts from Oxford Economics.

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