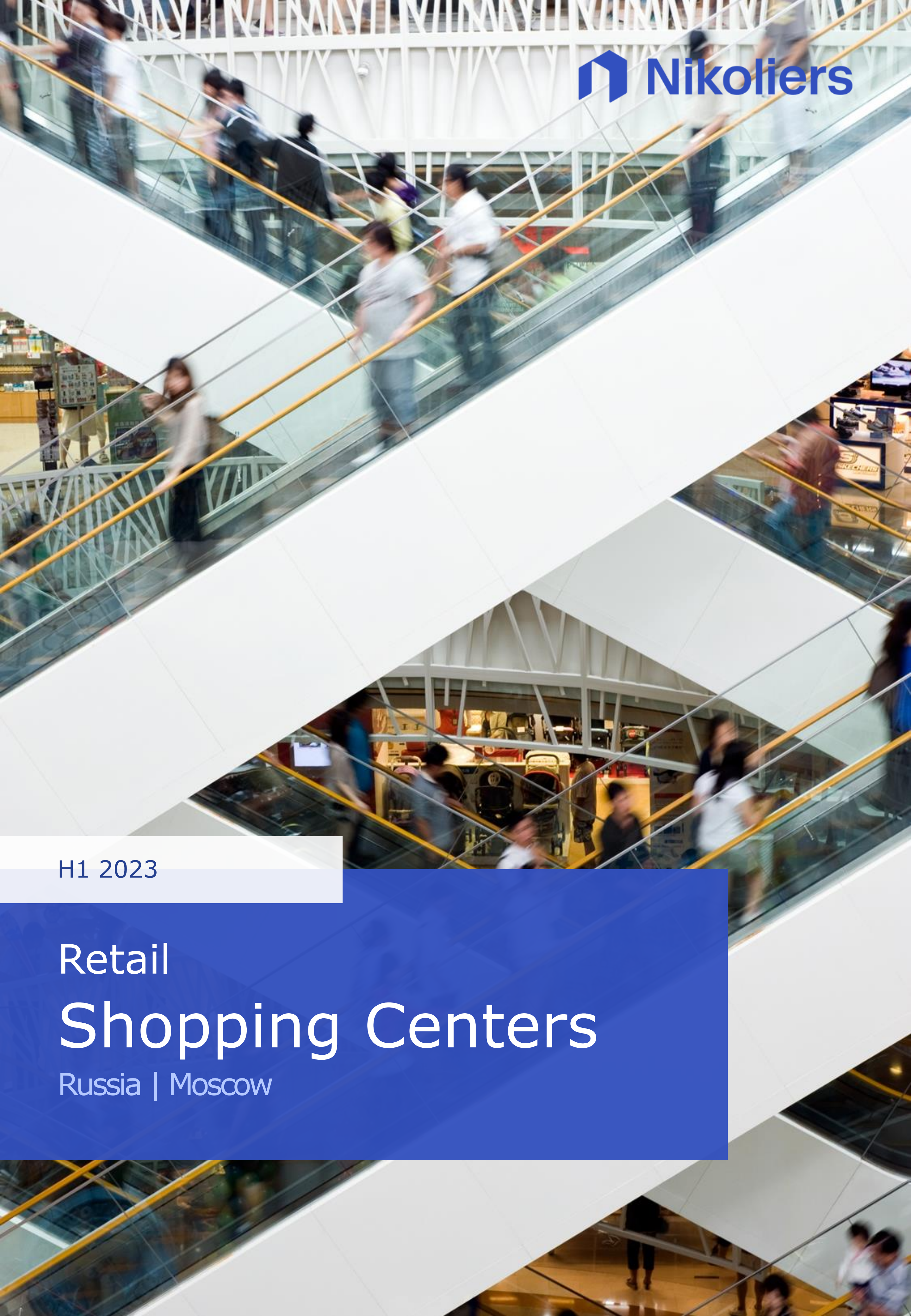


H1 2023

Retail
Shopping Centers

Russia | Moscow

Table 1
Key market indicators

Source: Nikoliers

	Q2 2020	Q2 2021	Q2 2022	Q2 2023*
Existing space at the end of the period, million sq m	7.6	7.8	8.0	8.0
New supply for the period, thou sq m	283.0	92.2	25.5	46.3
Number of opened SCs	4	4	3	3
Vacancy rate, %	10.2	10.5	13.0	13.5
Per capita space, sq m per 1,000 residents**	599	613	616	613

**Starting in Q1 2023, a new methodology for calculating the existing space and per capita retail space has been used (adjusted for the coverage of Moscow's satellite towns).*
***Data for 2022-2023 have been corrected to take into account the results of the All-Russian Population Census held in October-November 2021.*

Supply

New supply of quality retail space in Moscow and its satellite cities at the end of H1 2023 stood at 46,300 sq m (GLA) due to the opening of three shopping centers, which is almost twice as much as in the same period of the previous year. According to our estimates, during the first half of the current year about 17,2% of expected new retail spaces were commissioned, while during the next six months about 20 more quality retail facilities with total leasable area of 222,900 sq m are scheduled for opening.
The average area of new retail facilities in 2023 is 11,700 sq m. Similarly to the previous year there is still a tendency towards the delivery of small-sized neighborhood and community centers. ADG Group remains the most well-represented developer this year – about 10 facilities of those announced for commissioning will be completed by this developer.

Chart 1
Dynamics of retail space commissioning in the Moscow area, 2014–2023F

Source: Nikoliers

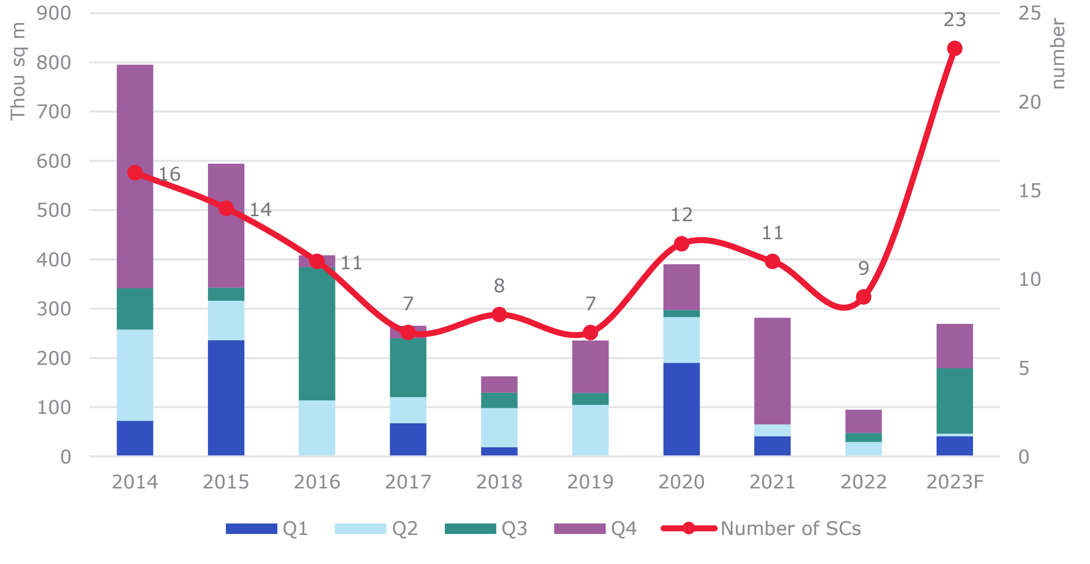
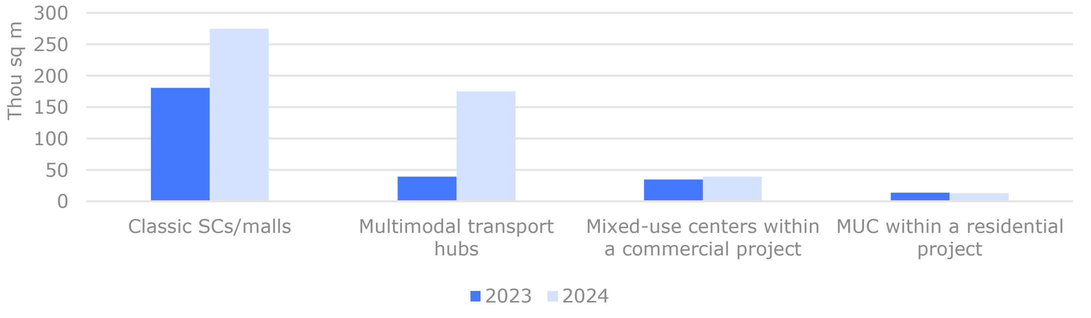


Chart 2
The structure of future SC supply, 2023-2024

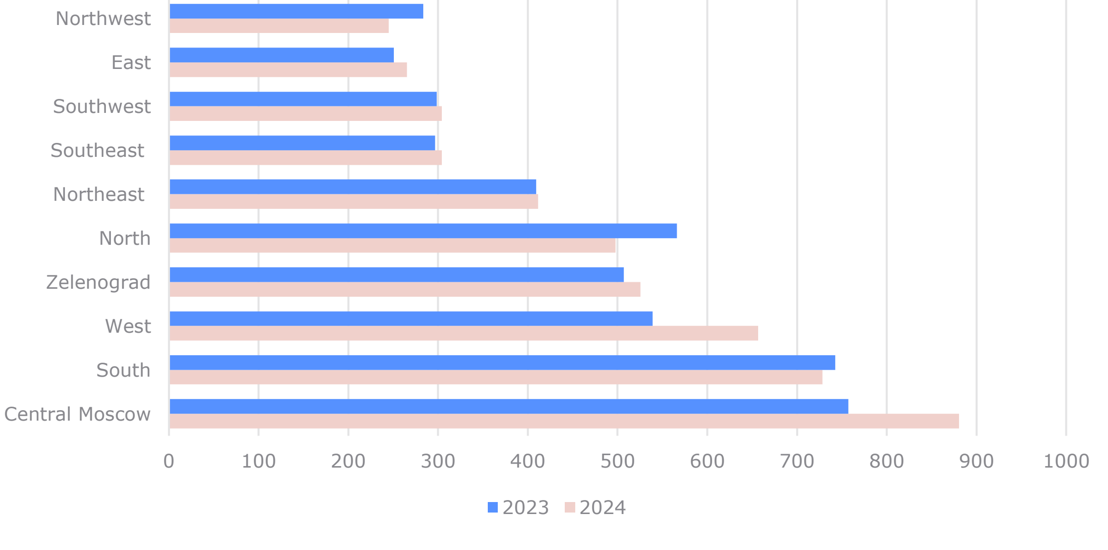
Source: Nikoliers



The structure of new supply is becoming more diverse: in addition to classic shopping malls with an entertainment component, shopping galleries or arcades are being introduced to the market as part of other real estate segments. One example is Siesta SC within the Spanish Quarters residential scheme which welcomed its first visitors already in Q1 2023, or a shopping gallery within Seligerskaya multimodal transport hub, slated for opening in 2024. If in 2023 the share of classic shopping centers commissioned in expected locations stands at 67,2%, then in 2024 we may witness its sinking to 54,7%, whereas the percentage of retail space inside multimodal transport hubs will increase by almost 2.5 times to reach 34.8%. We estimate that in 2023 three shopping galleries will be opened as part of the MTH, while next year only two, albeit larger ones.
Per capita retail space within Moscow is also undergoing certain changes. Taking into account the projected commissioning of housing in the administrative districts of Moscow according to project declarations issued, in 2023-2024 roughly 12.3 million sq m of housing will hit the Moscow market, which will lead to population growth in certain administrative districts. The anticipated changes will affect Northwest and South, where amid booming housing construction and a slump in the commissioning of new shopping centers, per capita retail space will be going down. On the contrary, in 2024 due to the commissioning of new retail schemes, per capita retail space will significantly increase in Central Moscow (+123.2 units) and in West Moscow (+117.6 units).

Chart 3
Availability and breakdown of retail space by administrative districts of Moscow in 2023 vs 2024, sq m per 1,000 residents.

Source: Nikoliers



Demand

Following the exodus of some foreign retailers, national and international brands that stayed in the market are pursuing the aggressive expansion policy. Thus, Melon Fashion Group has announced the opening of more than 200 shops in the year to come. Gloria Jeans looks to increase the number of shops by 130 outlets. Noun plans to open 25 of its own and 10 partner shops in 2023, and to double this figure in 2024. Akhmadullina Dreams intends to strengthen its position in the regions, while Ulybka Radugi is going to expand its presence in million-plus cities. Turkish brand Koton, for its part, wants to increase the number of its shops in Russia from 49 to 150 during the next five years. Besides the quantitative expansion, there has been an increase in occupied space; it is not uncommon for a retailer to move into larger premises within a single retail facility. Thus, Lime which previously occupied an average of around 300-500 sq m, is now taking up premises of 1,800-2,500 sq m, while the multi-brand Familia boutique, which was previously averaging about 1,400 sq m, is now ready to consider areas of 2,000-2,500 sq m and up.

More and more new international retailers are entering Russia: during the initial six months of this year, 16 brands have entered the Russian market. By comparison, for the entire year 2022 only 10 new brands entered the market. Despite a more diverse origin of the incoming brands, the categories are becoming less diverse. For example, 12 out of the 16 brands represent the Clothing and Footwear category, three brands are in the Homewares category and one is in the sports category.

As for the premieres of Russian brands, one of the most exciting and much discussed openings was the debut of the Russian brand Yollo in Afimall SC in the space previously rented by H&M.

Chart 4

Dynamics of international brands entering to and exiting from the Russian market, 2015 – H1 2023, numbers

Source: Nikoliers

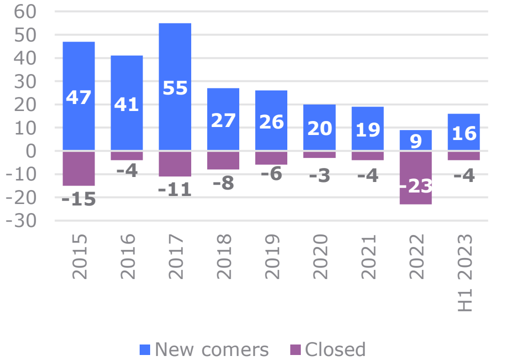


Table 2

Key international brands that entered the Russian market in Q2 2023 (a sample)

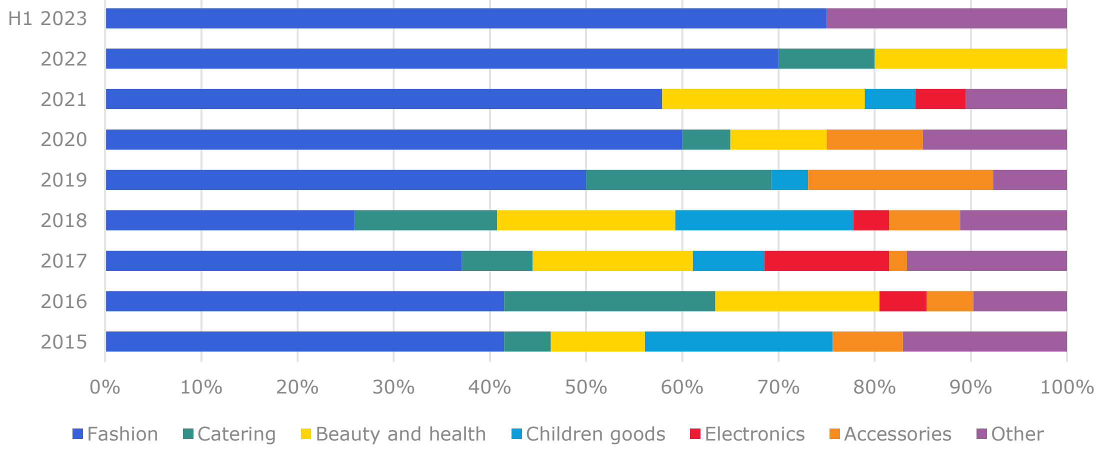
Source: Nikoliers

Brand name	Country of origin	Profile
Mudo	Turkey	Fashion
Karaca Home	Turkey	Homewares
PIZHON	Belarus	Fashion
MAAG	Lebanon	Fashion
Vilet	Lebanon	Fashion
DUB	Lebanon	Fashion
ECRU	Lebanon	Fashion

Chart 5

Breakdown of international brands entering the Russian market by their profile, % of the total number

Source: Nikoliers

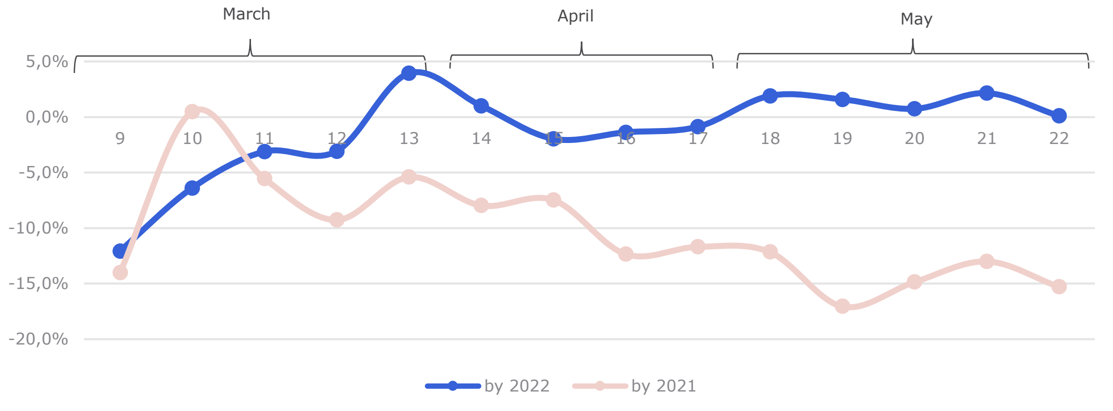


Footfall

In May attendance figures for the capital city's shopping centers showed a positive trend and, compared to the same period last year, were 2% up, which can be characterized as a gradual recovery of customer interest, though the 2021 attendance figures have not yet been reached – the lag in May was around 13-15%.

In the midst of gradual stabilization of the economic situation since the beginning of this year, we expect the footfall in shopping malls to increase as new tenants show up. Numerous entertainment events, which the owners of shopping centers have started to hold on a regular basis, have also had a positive effect.

Chart 6
Moscow Mall Index (weeks 9 - 22), compared to 2022 and 2021 (attendance dynamics)
Source: Focus Technologies



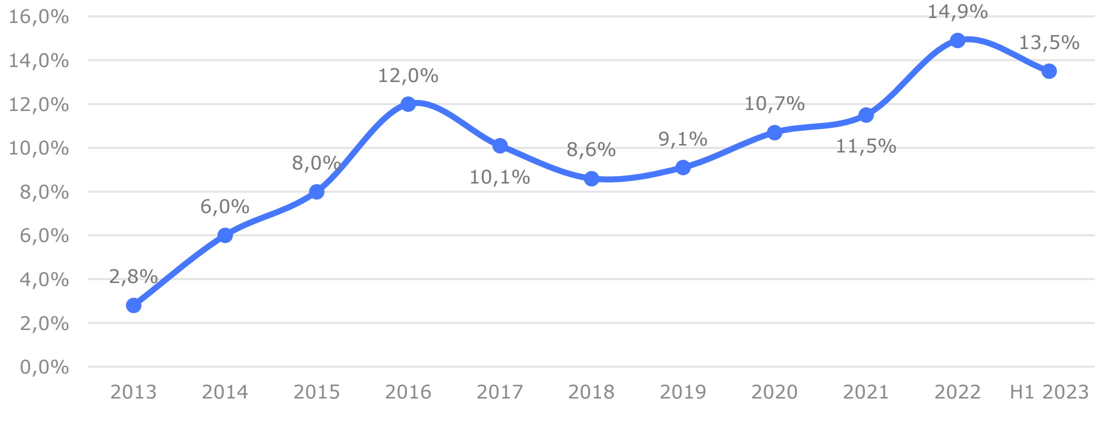
Vacancy rate

Vacancies in Moscow's shopping malls were ebbing during the first half of 2023. The vacancy rate went down 2.1 p.p. compared to the previous quarter. We can say that the retail market has overcome the hardest times for both owners and tenants. The decrease in vacancies was ensured by the massive shop openings by Daher Group (DUB, ECRU, Vilet, MAAG) and the robust expansion of domestic brands.

The amount of space occupied by retailers who suspended their operations in regional and superregional centers in Moscow has dropped to 2.2% of total GLA relative to Q4 2022 (-3.6 p.p.). This year we expect the vacancy rate to slide further due to the expansion of domestic brands in the Russian market, as well as the implementation of foreign retailers' plans to enter the market.

Chart 7
Dynamics of retail space vacancy rates in Moscow SCs, 2010 – H1 2023

Source: Nikoliers



Trends and forecasts

Department and multi-brand stores

Many retailers who had announced their withdrawal from the Russian market still wanted to maintain their presence in Russia. However, due to the lack of opportunity to continue their operations openly, well-known brands made their appearance on the shelves of new shops. Department stores and multi-brand spaces not only allow some foreign brands to stay in the market, but also contribute to the development of aspiring Russian brands. For example, the multi-brand project Remark with Western clothing brands is being launched. The first shop has already opened its doors to visitors in Outlet Village Belaya Dacha, and two more offline points of sale as well as an online shop may also be launched soon. The aggressive expansion of Stockmann (the company intends to open 20 shops by the end of 2023) and Slava Concept (the company announced the opening of 20 boutiques before the end of 2024) are certainly worth mentioning. The long-awaited opening of a premium fashion goods shop named Slepaya Kuritsa (Blind Hen) on the second floor level of Afimall SC will certainly be one of the main events this summer.

New brands promotion

The rotation of foreign brands that have left Russia is going on. The most attractive lots have been taken up by the largest national retailers and multi-brand spaces.

In our estimation, during the year to come both existing and new players in the market will focus on promoting their brands and enlarging their loyal target audience who have lost the opportunity to close their need for shopping in the stores of the departed brands.

Vacancies start ebbing

After a long period of uncertainty, when vacancy rates in the capital city’s key shopping malls could reach the 25-30% mark, the situation has stabilized. In many malls, vacancies have shrunk as new retailers have stepped in to replace the brands that have left the market. We estimate that vacancies will fall further in the second half of 2023.

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