Nikoliers

Q1 2024

Retail Estate Market
Shopping Centers

Russia| Moscow

Key market indicators in the Moscow area

Source: Nikoliers

	Q1 2022	Q1 2023	Q1. 2024	Change in 2024 vs 2023
Existing space in the Moscow area as of the end of the period, thou sq m*	7,968	8,025	8,075	+0.6%
including in Moscow	6,248	6,384	6,427	+0.7%
New supply in the Moscow area for the period, thou sq m	0	41	49.6	21.0%
including in Moscow	0	41	33	-19.5%
Number of SC openings in the Moscow area	0	2	3	50.0%
including in Moscow	0	2	1	-50.0%
Vacancy rate, Moscow, %	11.5	15.6	7.6	-8.0 p.p.
Per capita retail space in the Moscow area, sq m per 1,000 residents*	504	502	489	-2.6%
Per capita retail space in Moscow, sq m per 1,000 residents*	494	505	490	-2.9%

**Starting in Q1 2024, a new methodology for calculating the existing retail space and per capita retail space is applied (adjusted for the population of the entire Moscow area). The Moscow area includes Moscow and the Moscow Region within the confines of the Central Ring Road (CKAD).*

Supply

Based on the results for the initial three months of 2024, the long-awaited opening of Kuzminki Mall (GLA=33,000 sq m) took place in Moscow, and there are two more facilities that have been added to the Moscow region market: Atrium shopping mall (GLA=7,400 sq m) in Ramenskoye and Tsentralny shopping mall (GLA=9,200 sq m) in Dolgoprudny.

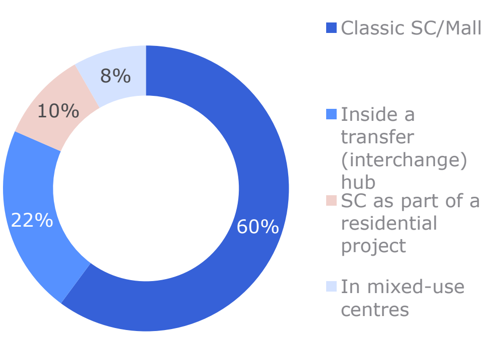
Thus, the new supply amounted to 49,600 sq m, up 21% year-on-year. Also in mid-February Liner SC received a commissioning permit, but so far only DDX fitness club with a separate entrance has been operating there.

In our estimation, new supply in the Moscow area at the end of the year may amount to about 166,200 sq m. The largest projects announced by developers are Seligerskaya SC as part of the eponymous transfer (interchange) hub, Botanica Mall at 1, Leonova Street and ZUM SC at the intersection of Likhachev Avenue and Vesninykh Brothers Boulevard.

The average vacancy rate in Q1 2024 went down 2.4 p.p. versus the end of last year to 7.6%. According to our estimates, this year vacancy in the capital city's shopping centers will stabilize at this level.

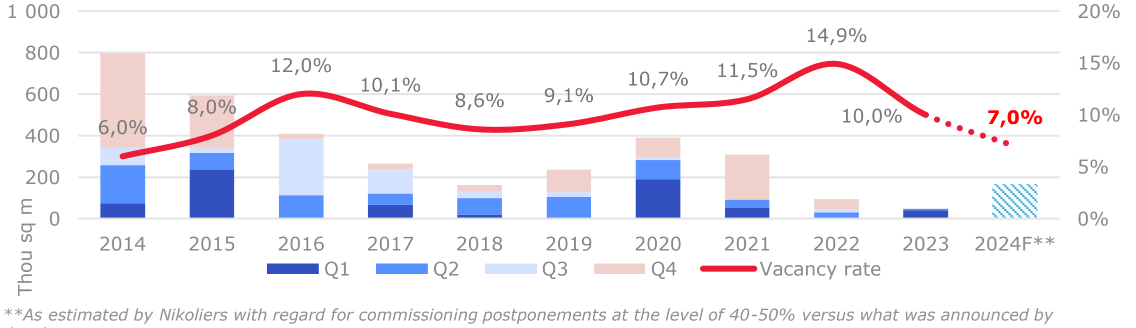
Breakdown of SC supply in the Moscow area in 2024

Source: Nikoliers



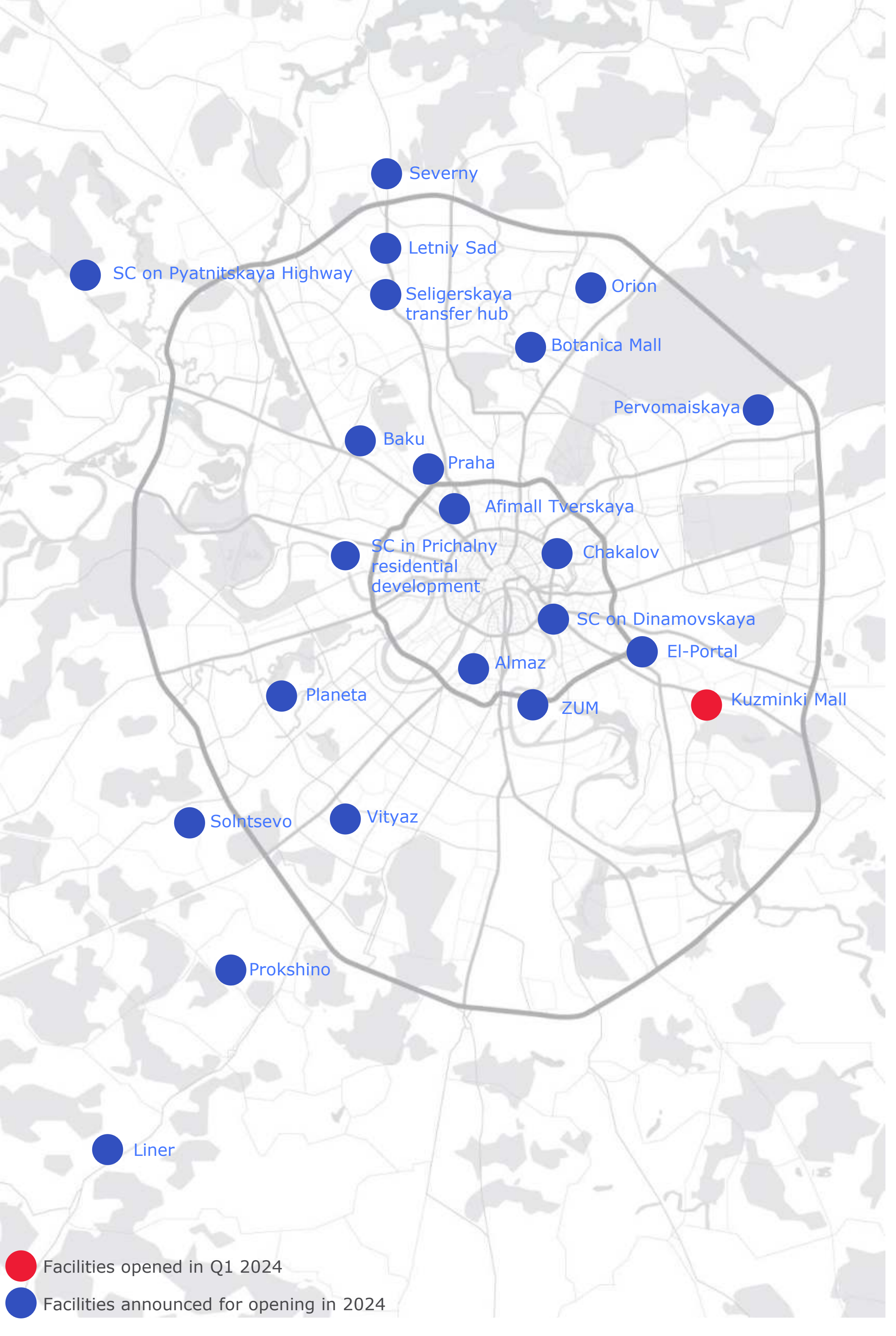
Dynamics of retail space commissioning in the Moscow area, 2014-2024F

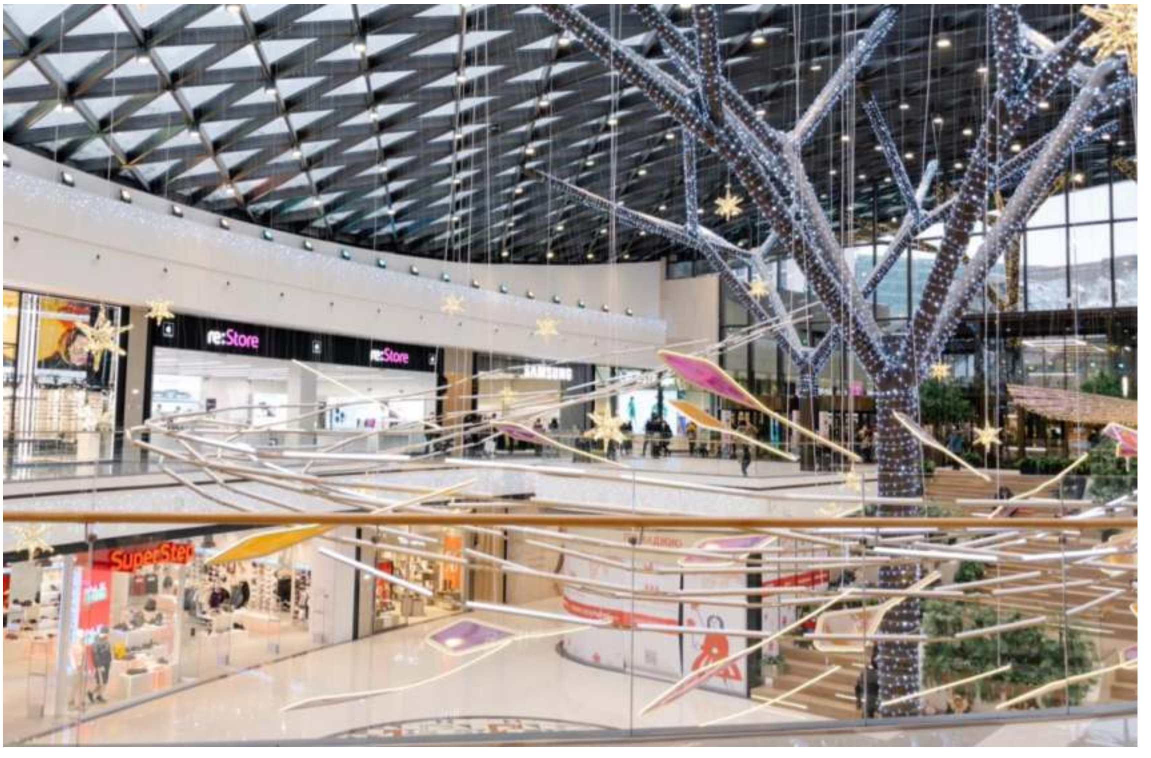
Source: Nikoliers



***As estimated by Nikoliers with regard for commissioning postponements at the level of 40-50% versus what was announced by developers*

Shopping centers announced for opening, Moscow 2024





Demand

Groceries: new formats and massive openings

X5 Group has announced its plans to launch ca. 1,500 Pyaterochka stores this year along with geographic expansion which is also anticipated. Another grocery chain Vkusville is developing Sgoryacha food corners with eight outlets already operating at present.

Household appliances and electronics: expansion of retail giants

M.Video – Eldorado plans to open about 100 stores with the average size in the range of 500-600 sq m. Another major player DNS intends to launch 40 new stores this year. At the turn of this year the Chinese electronic brand TECHNO entered the Russian market, while another Chinese manufacturer of electronics TCL has also announced its intention to open first mono-brand stores in Russia.

Clothing and shoes: plans of major brands and new names in the fashion industry

Gloria Jeans has announced its intention to increase the number of its stores to 1,000 outlets, while the women’s clothing brand SAVAGE plans to enlarge its partnership chain to 30 stores. In the meantime, the German brand Bulmer is also going to open about 30 new clothing stores during this year. Melon Fashion Group has applied for registration of the Love Republic Beauty trade mark, under which it plans to manufacture skin care and decorative cosmetics. Meanwhile O’Stin has announced its plan to launch the youth clothing brand Face Code, with first 10 shops scheduled for opening in the early fall of 2024. The owners of the Zolla chain have declared the launch of a new brand called Nice&Easy, with first shops slated for opening already next year.

Wellness: expanding to shopping centers

The healthful lifestyle is so popular now that it has a certain impact on the tenant mix in some shopping centers. Wellness operators are by no means something exotic there with spa complexes looking quite organic inside traditional malls. Two spa centers opened in the capital city during the previous year and the same number is slated for opening in 2024.

Discount stores: retail market

We are now witnessing the growth of radical discounters. Magnit has declared that it has completed the testing of its B1 off-price stores and the chain is ready to launch aggressive expansion both in Moscow and in various regions. The Chizhik discounter chain has also announced its own aggressive expansion strategy as it eyes an increase in the number of its points of sale. Thus, by 2026 this chain plans to have 5,000 functional stores.

Movie theatres: the share of Russian films keeps growing

Box office receipts at cinemas are showing positive dynamics. According to Film Distributor's Bulletin, the results for 2023 exceeded the 2022 box office receipts by 9.5%. The Russian-made films *Three Heroes and the Navel of the Earth, By the Pike's Will* and *Cats of the Hermitage* are the TOP-3 Russian movies in terms of distribution. Thus, as far as box office takings are concerned, the share of movies released by domestic film studios amounted to 46.1% (+23.3 p.p. over four years). By comparison, in 2019, Russian films accounted for only 22.8%.

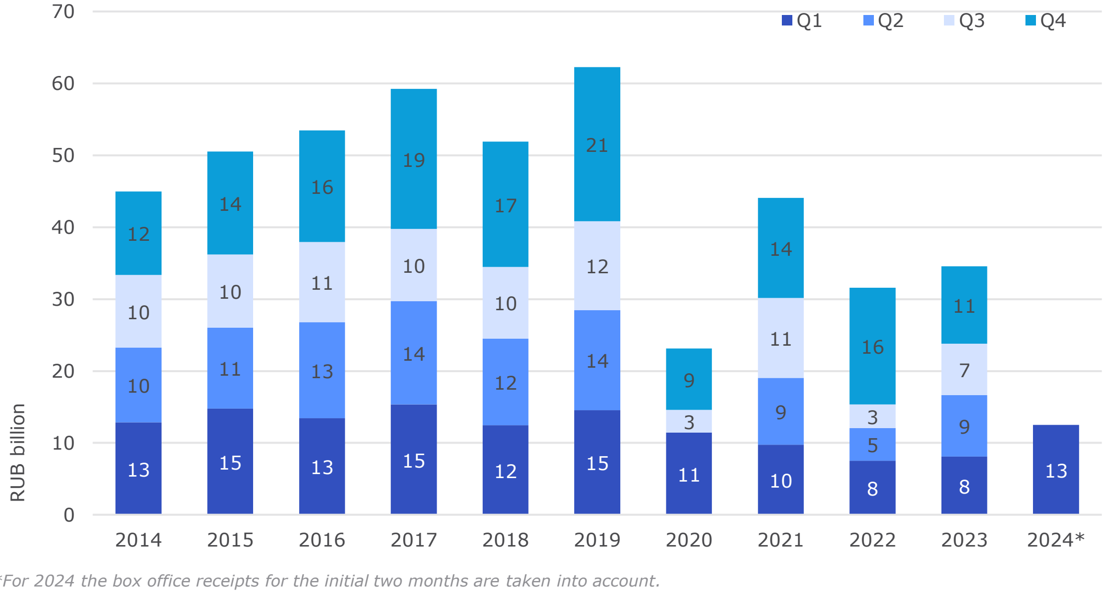
The beginning of 2024 was marked by high-profile premieres. For example, the top three films in terms of box office receipts were the Russian films *Son of a Rich 2*, *The Bremen Town Musicians* and *The Master and Margarita*, which accounted for almost 70% of box office takings in the first two months of 2024.

Meanwhile, cinema revenue in the first two months of 2024 was 54.9% higher than for the entire first quarter of 2023. We expect the share of films released by Russian film studios to continue its climb throughout 2024 in terms of film distribution proceeds.

However, it should be noted that the number of cinema screens in shopping centers under construction is decreasing. This is primarily due to the format of the facilities being commissioned – most often community or neighborhood centers do not house a movie theatre. In large malls, due to decreasing traffic, owners and management companies are considering alternative ways of floor plans both for new projects and within the existing cinemas.

Box office receipts in Russia

Source: Film Distributor's Bulletin, Nikoliers



*For 2024 the box office receipts for the initial two months are taken into account.

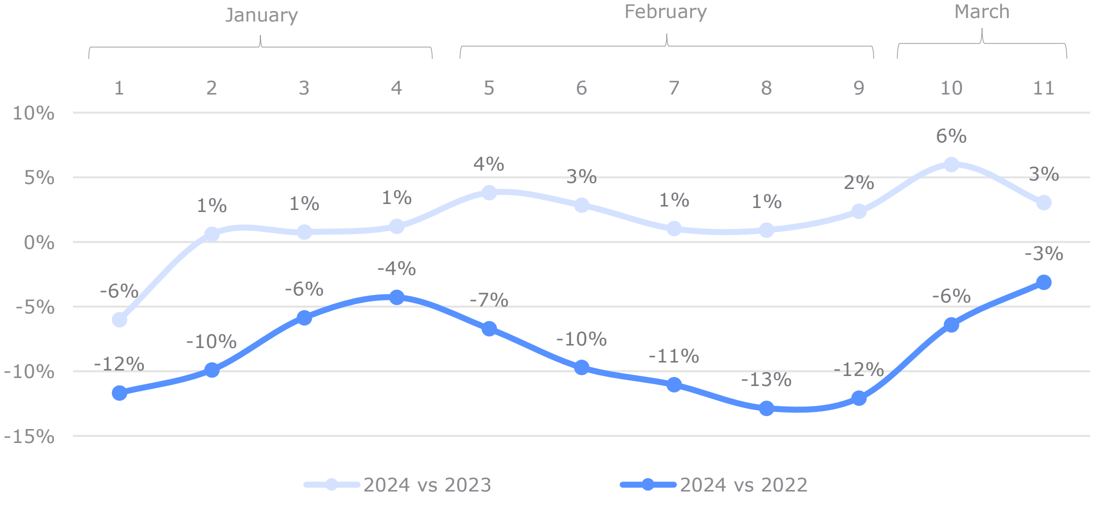
Trends and forecast

Footfall

The attendance of the capital city's shopping centers demonstrates positive dynamics on the year-on-year basis. Judging by the results for the first quarter of 2024, the Mall Index has upped by 1.5%. Yet it lags 7.2% behind the level of the initial three months of 2022 due to the high base effect. The difference from 2022 will further decrease due to the new "footfall norm" already formed. This was facilitated by the development of online retail, as well as by the exodus of tenants familiar to consumers and the entry of new brands that need time to develop their target audience. Wellness and entertainment operators are becoming traffic generating tenants.

Dynamics of the Moscow Mall Index (1–11 weeks) in comparison with similar periods in 2023 and 2022

Source: Focus Technologies



Consumer behavior

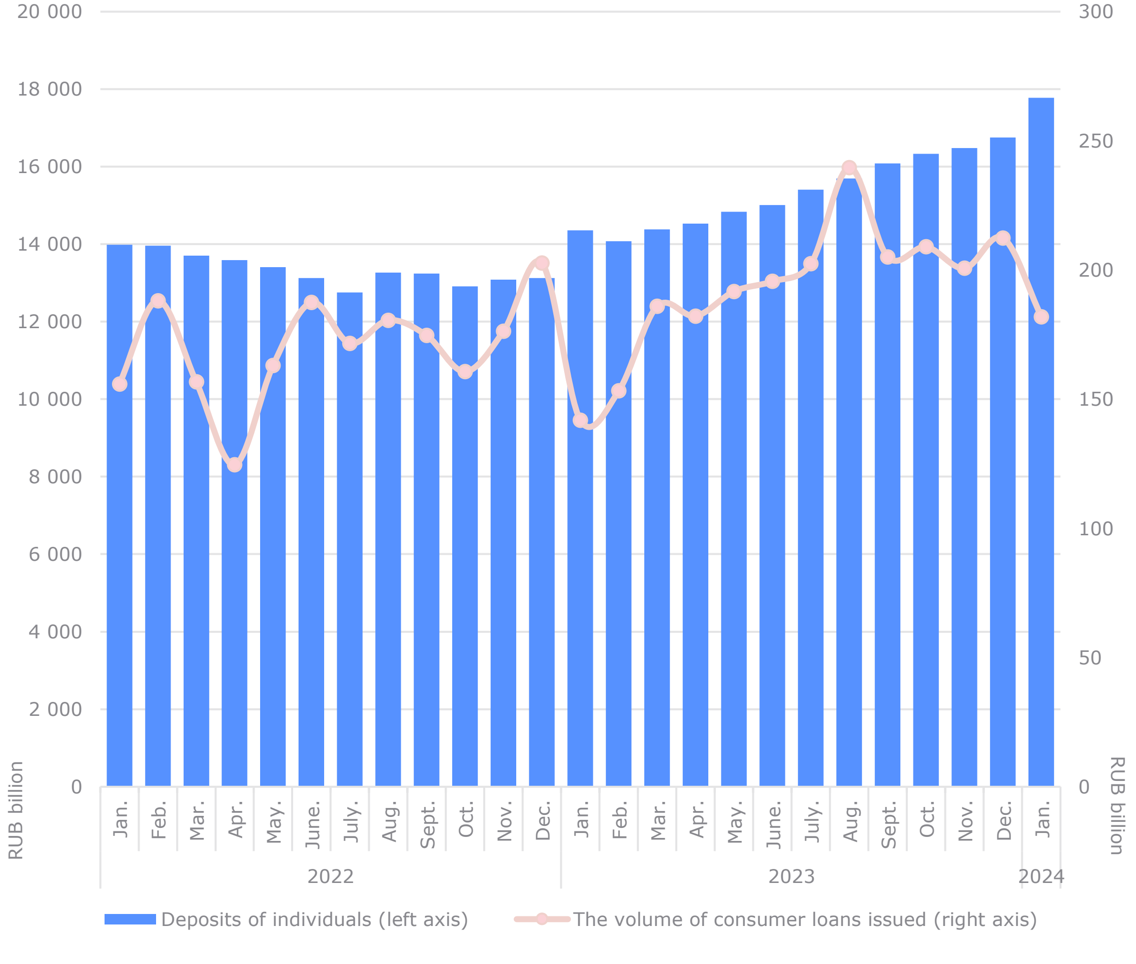
The last decade has seen significant changes in consumer behavior. While the added flexibility and convenience of omnichannel retailing provides consumers with more shopping options than ever before, high inflation has put additional pressure on household budgets. Consumers are becoming more practical, appreciating the quality and functionality of merchandise.

Despite this price sensitivity, value continues to dominate. Consumers are looking for positive experiences from the products they buy and the retailers they buy from. Consumers are looking at goods and services that will provide flexible lifestyles or cost savings over the long term or are designed specifically for their unique needs.

At the moment, consumers are still focused on savings. After a surge in consumer loans to individuals early last year, the figure has corrected downward. At the same time, the retention of the preferential mortgage program until July 1, 2024 will support this trend during the first half of this year. Those who have not yet taken advantage of this program will strive to accumulate a sufficient amount of money for a down payment in order to take advantage of a mortgage on beneficial terms.

Deposits, including funds on escrow accounts and the volume of consumer loans issued to individuals at the end of the period in Moscow, 2022-2024, RUB billion

Source: Bank of Russia



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