

CONSTRUCTION ACTIVITY IN THE RUSSIAN REGIONS\*



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The highest construction activity The lowest construction activity

\* by total retail space under construction (sqm)

- **THE HIGHEST CONSTRUCTION ACTIVITY** (except Moscow and Moscow region, where activity is traditionally on a high level) is noted in Kurskaya Oblast' and Krasnoyarskiy Kray – around 200,000 sqm of quality retail space is under construction in each region. Krasnoyarskiy Kray is the second largest region in Russia by area, however construction is concentrated only in the region's capital.
- **THE NUMBER OF LARGE-SCALE PROJECTS** under construction has decreased, so now the average size of a project shrank from 43,000 sqm in 2016 to 34,000 sqm in 2017 (malls opened in 2017 and planned for the opening till the end of the year).
- Lately, **DEVELOPERS HAVE EXPANDED ACTIVITY** to the distant regions. For instance, construction activity has been started in Vladivostok, Khabarovsk, Grozny while several years ago developers did not consider these regions for potential construction.



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LATEST TRENDS OF THE RUSSIAN RETAIL REAL ESTATE MARKET

IN 2017 the **RETAIL SALES ARE FORECASTED TO GROW (+1.2%)** first time after 2014. Disposable income is expected to grow (+1%) as well.

STARTING FROM 2015, the construction volume has been decreasing. **RECOVERY IN DEVELOPMENT IS EXPECTED IN 2019-2020.**

IN ORDER TO ADJUST to the new reality and keep the customers, many **RETAILERS ARE OPTIMIZING THE FORMATS AND CONCEPTS**

**DEVELOPERS ARE INCREASING THE SHARE OF F&B SEGMENT** (both food courts and restaurant zones) **AND ENTERTAINMENT CONCEPTS** in shopping centers.

**LOW-BUDGET RETAIL FORMATS ARE DEVELOPING MOST ACTIVELY**

**E-COMMERCE IS EXPANDING** - retailers announce the start of online operations and mobile applications.



We see retail consumption starting to rebound following two years of recession. The consumers are weary of economic shocks, relishing the first full year of macroeconomic stability and appear again ready to spend. This is a new challenge for retail operators, investors and developers how to accumulate and maximize the strength of the recovering market, to support upward development trend."

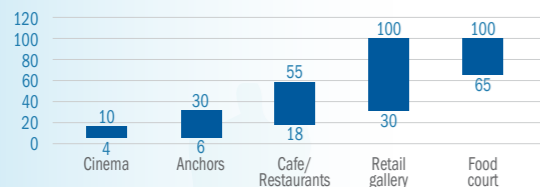
SERGEY RIABOKOBYLKO, Executive Partner, CEO of Cushman & Wakefield Russia

LEASING TERMS. MOSCOW

**THE MOST COMMON RENTAL PAYMENT** in shopping centers is a compound rental rate (fixed rent or percentage of turnover whichever is higher). On average, the percentage of turnover varies between 12-15% for fashion operators and 1-3% for large anchor tenants.

After a long period of rental rates nominated in US Dollars, starting from 2016, the majority of leasing contracts are proceeded in Russian Rubles.

EFFECTIVE RENTAL RATES IN THE MOST DEMANDED SHOPPING CENTRES IN MOSCOW '000 RUB / SQM / YEAR



VACANCY RATE. MOSCOW

IN 2017 THE AVERAGE VACANCY rate is expected to be stable at the level of 10-11%.

- Shopping centres of high demand (successful projects in prime locations) show a low vacancy rate consistently - around 2-3%.
- The vacancy rate in shopping centres opened before 2015 hasn't changed significantly during the past year - 7-8%.
- New shopping centres constructed over the past 2.5 years had a high vacancy rate at the opening (30-50%). Now the vacancy rate is noticeably decreasing down to the average rate of 20%.
- Average vacancy rate in existing shopping centres continues to decrease. However, a delivery of large-scale malls with high vacancy rate prevent the indicator from a drastic drop.



RUSSIA



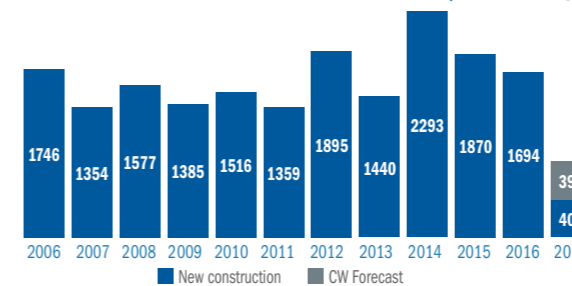
- The total stock of quality retail space in Russia (including Moscow) is 20.7 mln sqm.
- In Q1-3 2017, 11 shopping centres were opened (total GLA of 400,000 sqm).
- By the end of the year, around 800,000 sqm of quality retail space is expected to be delivered to the market.
- The construction volume will reach a 10 year low.
- The biggest shopping centre outside of Moscow planned for opening in 2017 is Central Park (2nd phase) in Kursk.

MOSCOW



- There are 115 quality retail schemes with total GLA of 5.1 mln sqm.
- By the end of 2017 only 3 new malls are planned for the delivery. There is only one large-scale shopping center among them - Vegas Kuntsevo (GLA 119,467 sqm), the largest property opened this year in the whole country, it will cover around 80% of new construction in Moscow.

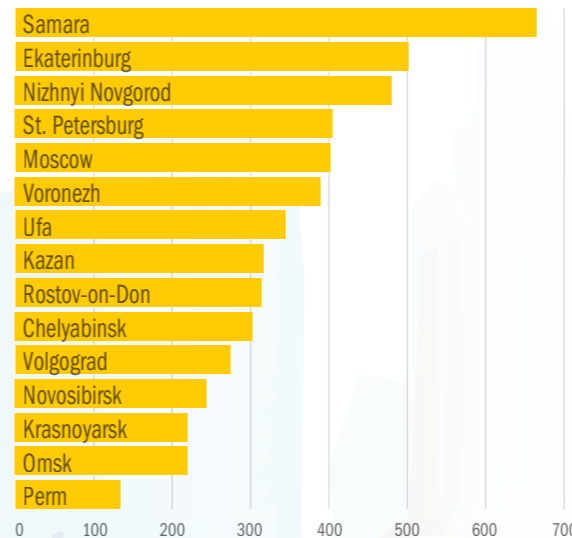
NEW CONSTRUCTION IN RUSSIA, '000 SQM



Quality shopping centre space provision in Russia per 1,000 inhabitants comprises 131 sqm, which is more than twice below the European average of 280 sqm.

While Samara is the leader by provision of quality retail stock per 1,000 citizens among the 1 mln+ cities\* (664 sqm). Krasnodar holds the leading position among all Russian cities with 709 sqm.

RETAIL SPACE DENSITY, SQM / 1,000 INHABITANTS IN 1 MLN+ CITIES\*



\* cities with more than 1 mln citizens

SHOPPING CENTRES IN RUSSIA, 2017

CITY	PROPERTY NAME	RETAIL GLA, SQM
<b>MALLS OPENED IIN Q1-3 2017</b>		
Voronezh	Center Galerei Chizhova (phase 3)	60,000
Novosibirsk	Edem	25,000
Lipetsk	Riviera	61,000
Togliatti	Aquarell	41,140
Mytishi	4Daily	25,000
Blagoveschensk	Flagman	18,500
Voronezh	TSUM	16,000
Moscow	Auchan Proletarsky	15,440
Moscow	Vegas Kuntsevo	119,467
Ulan-Ude	Forum	10,500
Orenburg	Kit (phase 2 - aquapark)	7,800
<b>MAJOR PROJECTS PLANNED FOR DELIVERY TO THE MARKET IN Q4 2017</b>		
Kursk	Central Park (phase 2)	107,000
Rostov-on-Don	Megamag (phase 2)	57,000
Vidnoe	Vidnoe Park	45,000