

RUSSIA

Retail Market Snapshot

Fourth Quarter | 2017



MARKET INDICATORS

Market Outlook

- Prime Rents: Rental rate indicator shows a slight increase at inflation rate, further growth is expected. ▼
- Prime Yields: Yields compression due to softening risks. ▲
- Supply: New supply is limited due to decreasing construction activity. ▲
- Demand: Retailers show moderate activity being supported by the recovering consumer market. ►

Prime Retail Rents - December 2017

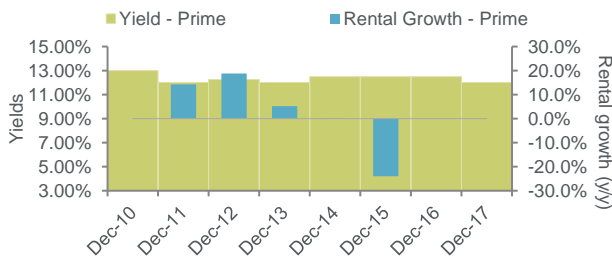
HIGH STREET SHOPS	RUB	€	US\$	GROWTH %	
	SQ.M YR	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Moscow (Stoleshnikov)	200,000	2,887	322	0.0	-4.4

Prime Retail Yields - December 2017

SHOPPING CENTRES (FIGURES ARE GROSS, %)	CURRENT Q	LAST Q	LAST Y	10 YEAR	
				HIGH	LOW
Country prime	10.50	11.00	11.00	13.00	8.50

With respect to the yield data provided, in light of the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

Recent performance



Overview

Consumer sentiment improved in 2017, although the revival has not been sufficient to generate growth and expansion in the retail sector as yet, as retailers in the main remain cautious. Prime shopping centre segment reacted to the changing situation - rental rate indicator has increased after a two-year stagnation. Market stabilization resulted in the first decrease of prime yields in the last 3 years.

Occupier focus

Retailers continue to optimize their operations and experimenting with new formats. Large retailers continue to increase the number of stores. The biggest expansion is demonstrated by grocery stores, which are developing in the regions they are already present and are also exploring new regions of Russia. F&B segment is also actively developing - in many shopping centres food courts, and restaurant zones are in the process of providing new concepts and formats.

In 2017, new construction reached a 10-year low both in Moscow and Russia overall, and it is expected to remain at low levels over the next couple of years, leading to a reduction in vacancy rates. The average size of new retail schemes is decreasing – the typical size of a shopping centres under construction in 2018 is 28,500 sq. m compared to 38,500 sq. m in 2017. Developers are moving focus from large-scale to neighborhood shopping centres.

Investment focus

Retail investment volume caught up the office segment in 2017 due to one major deal finalized by the end of the year – Immofinanz sold the portfolio in Russia. Thus, retail covers 40% of the total volume. Activity on the retail market is recovering while 100% of investors are local companies. No noticeable changes in the investments structure are expected in 2018.

Outlook

More active retail market growth will be seen in 2018 together with increased disposable income and retail turnover. Further prime rental growth is expected combined with a reduction in vacancy rates.

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