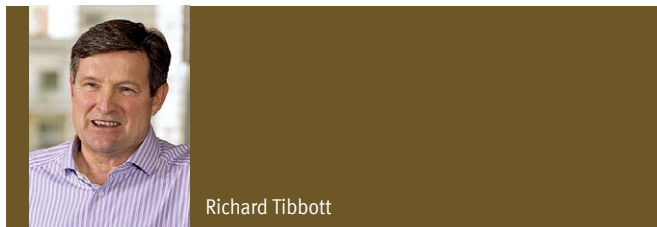


Moscow's Challenging Leisure Scene

The Leisure scene of Moscow is changing fast. Will all these new leisure developments be viable and is the market and affluence growing quickly enough to absorb the billions of roubles being spent on this sector in real estate?

RICHARD TIBBOTT, CHAIRMAN ADVISORY SERVICES, CUSHMAN & WAKEFIELD, MOSCOW



Richard Tibbott

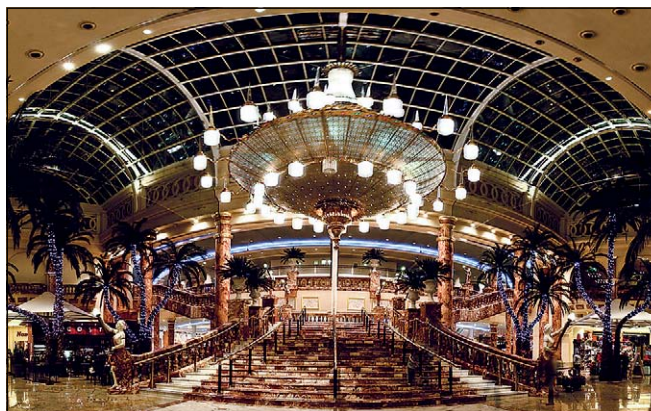
Typically in high growth economies urban real estate markets are exploring a next 'wave' of development: after addressing immediate societal needs in terms of housing, offices and then retail centres, over the past two decades, the development of entertainment and tourism venues and infrastructure will become a growing focus in Russia & CIS. What is happening in the Moscow market?

- Growing affluence and increasing disposable income are showing in the following leisure sector trends:
- Increasing discretionary spending – Russia is growing faster from a low base than many parts of Eastern Europe and of course much of Western Europe is seeing a standstill or negative position.
- The growing middle class of Moscow – households with an annual income of over \$30,000 per annum are the major source of recreational and leisure demand. Moscow has about 50% more middle class per capita than St Petersburg and 200% more than all Russia; Moscow's consumers will demonstrate the leisure growth trend;
- Moscow's young consumers aged 16–26 are the most active leisure and entertainment consumers – and as they mature this new class of “leisure literate” young adults will travel more, see great leisure opportunities and expect that the market will provide them on their doorstep in Moscow;
- Russians generally are spending not saving – spending is in full swing – eating out is growing (now 5% of total consumer spending), recreational vehicles sell fast and leisure car based trips grow; foreign travel has seen a massive increase from year to year (Q1 2012 Russian tourists abroad increased 12% on Q1 2011) – bringing with it a desire to have some of these international experiences closer to home in Moscow.
- Out of home leisure weekend trips seem to be growing in response to new countryside resort development – Many families have access to countryside dachas (nearly 51% of all Russians and 49% of Moscow citizens), and nearly 34% of all city dwellers regularly leave cities during spring holidays seeking fresh air and peace of the country life; Cush-

- man & Wakefield believe that countryside dacha developments will become even more popular family investments;
- More sophisticated family short break and countryside facilities are now expected by middle class and younger consumers – a countryside dacha remains too expensive for many and those with dachas also want a more sophisticated experience, so Cushman & Wakefield believe that the creation of new countryside resorts and family visitor attractions around Moscow will gather momentum;
- Young consumers and the middle class family markets are driving strong 10% pa growth of Internet and media & cinema entertainment investment – Cushman & Wakefield see that in the majority of regional cities modern entertainment centres are appearing in large shopping malls to differentiate a centre and to lengthen trading hours and increase footfall. Cushman & Wakefield estimate and during 2012 15 projects with over 50 000 sq m GLA and including large leisure units will open in Russia.
- Overall it seems that the weekend becomes ever more important in the pursuit of leisure – commute times for Moscovites are not likely to shrink so weekend leisure activity becomes much more important to the family. Families will now look for a weekend trip – but where is it to be – to the shopping & leisure centre, a visitor attraction or to a City outer region family resort?

Moscow Leisure Supply

Traditionally Gorky Park and Luzhniki have provided the main market facilities for recreation for generations. Now it's great to see that these precious sporting cultural and recreational assets are at last having a makeover and modernization.



One of the biggest UK centres with c 200,000 sqm in a 15 million / 60 minute drive-time catchment

Photo by Park Gorkogo



The best of the cultural heritage of Gorky park needs to be treasured and preserved

Gorky Park in the summer of 2012 is buzzing with people and new activities – beach volleyball, new children’s play facilities and family events and attractions. But the best of the cultural heritage of Gorky needs to be treasured and Gorky needs to link with other green spaces in the city. A new strategy and masterplan can be expected to take this progressive thinking further over the next year.

Luzhniki has gone through major changes by removing the market traders and planning a new stadium for FIFA World Cup 2018, and now, the next stage of Luzhniki’s imaginative strategy is to bring even more recreational opportunities for Moscovites with the wonderful green environment preserved.

“Luzhniki will become a multipurpose lifestyle complex, which will be able to host simultaneously competitive sport, sports training, concerts and big shows, while Moscovites spend their informal leisure time in the beautiful environment of Luzhniki».

*Eduard Zernin Deputy CEO,
Strategy and Development Olympic Complex Luzhniki*

However, beyond these traditional and iconic leisure destinations, there are now several new market trends likely to emerge in greater Moscow, and here are the most interesting ones.

Trend 1 – Retail centres are strengthening their destination appeal

There are many different types of attractions put alongside retail malls – ski slopes and aquaparks, stadiums and arenas. But in most cases these are “multi-use” and not “mixed-use” developments. They get the benefit of shared infrastructure but there is limited evidence of genuine dual visit motivation by the visitor – does an ice hockey or football fan really go shopping after or before? Perhaps an indoor skier will buy some apparel, and the “Try and Buy” consumer motivation is a strong retail idea as evidenced by the Decathlon brand.

Retail shopping is for many a great leisure time experience. But competition for the family and young adult market now means that developers need to include leisure and life-style components – cinema & bowling, a full choice of restaurant brands and family visitor attractions, especially those that can educate and entertain. Retail centres that seek stronger competitive positioning are looking for new/international entertainment concepts to achieve differentiation through “mixed-use” market synergies. Perhaps we should call this the search for ‘shopping-tainment’? The middle class families of Western Europe are in search of “edutainment” – good educational stimulus for their children in a leisure environment. Such families are being attracted to retail malls by such brands as Legoland Discovery, Kidzania. These brands are designed to fit into retail centres and to bring more family shoppers and to lengthen dwell time, induce food and beverage spending and generate a strong consumer preference for that shopping centre.

Charles Slater, Moscow’s Head of International Retail in Cushman & Wakefield: “There is great synergy between family attractions and retail spending in major retail mall projects, but usually a package of leisure and catering attractions is need to create the critical mass of a leisure destination effect – these concepts in isolation never work to their full potential.”

This is demonstrated in the Manchester Trafford Shopping Centre (one of the biggest UK centres), where the 4200 sqm Legoland Discovery centre is operated by world class attractions operator Merlin, and is very successful. But Merlin has decided to match Legoland Discovery Centre with a 2000sqm Aquarium in order to optimize the attraction value and increase spending. Mexico’s “Kidzania” brand, which now is spreading to many large retail centres, and perhaps also Moscow, shows strong results too, but again the route to success is much more complex than just opening a leisure anchor unit in the mall.

The first of these family attractions for Moscow is the “Masterslavl” children’s theme park with a total area of 6,000 sq.m which will be located in the Evolution Tower shopping centre. The lease agreement has been signed with the developer for a period of 10 years. Masterslavl is scheduled for opening in Q4 2012 with a project budget of US\$15 million and a payback period of 8 years. Masterslavl is a simplified, but lifelike replica of an actual city where residents and visitors are children. In 50 workshops children will experience a variety of grown-up professions through role playing activities. Children will acquire basic knowledge on any job they like, practice it and get paid for the work done. Masterslavl has its own local currency, a bank, social services, motor roads, a theatre, scientific research laboratories, boutiques and manufacturing workshops. In the Park kids will learn to interact with each other in joint activities and take joint responsibility, developing their social skills.

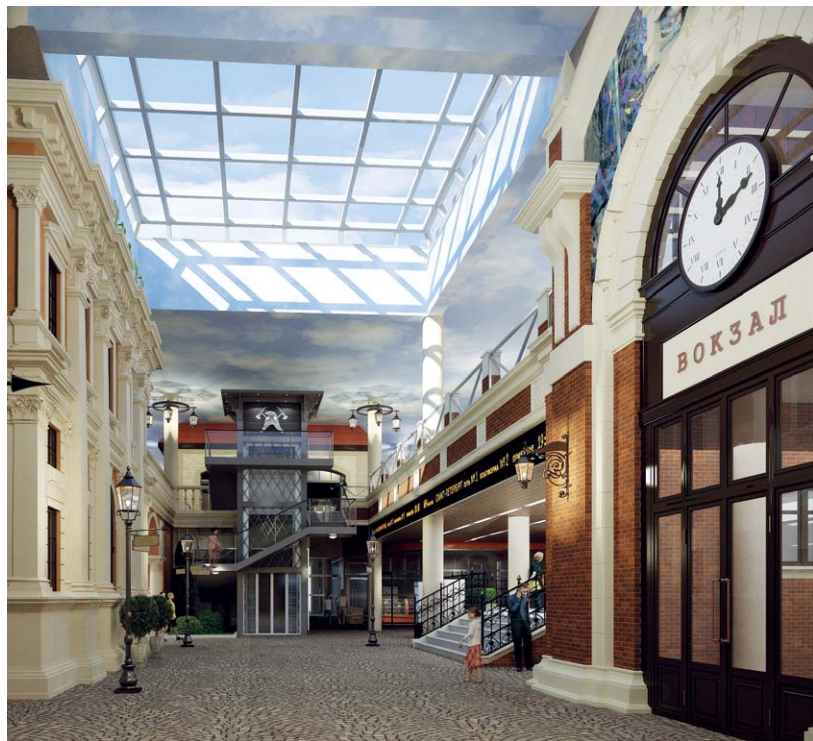
Julia Kachur, retail and leisure leasing specialist at Cushman & Wakefield: “The Espro Group’s “Masterslavl” entertainment and educational family attraction will have a profound trend-setting market impact when it opens in December 2012”

Trend 2 – The Urban Theme Park destination

The greater Moscow market is massive by world standards and it is attracting the attention of the theme park and attraction brands. According to “Themed Entertainment Association” report (July 2012), the top 25 theme parks have a 196.3 million worldwide attendance and a 3.8% growth. Europe’s performance reflects its depressed economy with no theme park in the world top 20 performers and with a lower level of growth of 2.8% on 57.8 million visits. European management is performing well with Merlin Entertainment Group rising up the rankings and above Universal Studios, whilst Disney the world leader by a very large margin showing flat year on year performance.

Several of Europe’s best theme parks are in traditional city centre sites – notably Tivoli Copenhagen and Liseburg Gothenburg with around 3 to 4 million annual paid admissions, and, of course, the iconic Gorky Park with many millions more free admissions. Nevertheless it’s also clear that major cities create large-scale market potential for theme parks at the edge of cities where the road system can provide optimal catchment areas. Moscow has the prospect of Galactica to the South of Moscow with both the new AEG Indoor entertainment arena (like the massive O2 in London) and a Universal Studios theme park as part of a new retail and leisure destination. This will set new standards in Moscow to match London and Paris for family recreational opportunity.

Cushman & Wakefield’s partner in themed development, Marcel Hatt of MaxMakers: “The leisure market phenomenon of the big theme park and entertainment centre will create an entirely new destination for Moscow, change the perceptual geography of Moscow and motivate a new level of achievement of the leisure economy of Moscow”



Masterslavl is a lifelike replica of an actual city, where the residents and visitors are children

Trend 3 – The growth of the Urban Resort

The urban resort at the edge of City is becoming a popular development trend. These are well established in Western Europe and at holiday destinations all over Europe and these are now appearing all around Moscow. There are 15 around Moscow (Istra Holiday, Imperial Park Hotel, Mistral, Arthurs Spa etc) and a growing market, but disappointing average occupancy at around 50% well below a strong result usually because of insufficient product investment. The successful Kazan Riviera project demonstrates a critical mass of investment and business plan success. Swimming and children’s play, and outdoor recreation facilities are essential but also all year round sports, a wellness centre and spa are needed as well as meetings, incentives, conferences and exhibitions (MICE) facilities. Generally the more activities there are available the more likely it is to achieve a viable level of occupancy and revenue per room.

David Jenkins Head of Hospitality at Cushman & Wakefield in Russia: “The science is to get the balance between investment, market appeal and profitability right.”

Leisure – a positive real estate asset

This is a time of great opportunity for successful leisure and visitor economy investment in Moscow’s growing market – and of course its also a time for errors and unforeseen sub-optimal performance. At Cushman & Wakefield it’s our conviction, that leisure components can add value to many real estate investments only when the destination planning is cleverly researched and when there is very clear expert thinking about how to optimise leisure consumer spending. **B**