OVERVIEW

Q3 2011

RETAIL REAL ESTATE MARKET

Moscow

Knight Frank

MAIN TRENDS

- Developers activity in Moscow remained at high level in Q3 2011.
- Growth of supply in nine months of 2011 was the lowest since 2003: only 263,000 sq m of modern retail space was brought into operation.
- Interest of both developers and retail operators was focused on towns in Moscow Region and dormitory districts in the city.
- The vacancy rate at Moscow shopping centres decreased and rental rates increased, partly due to rotation of tenants.

RETAIL REAL ESTATE MARKET. MOSCOW

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The retail property market of Russia can be determined at the moment by high level of investments and development and also by the shift towards the towns in Moscow Region and to cities in other regions on behalf of developers and retailers alike.

This year promises to set new records for retail investment transactions. Currently total segment transactions are in excess of $1.5 billion, representing about 40% of total commercial real estate transactions on the Moscow market.

Main indicators. Shopping centres		Trends
Total supply at operating centres (total space / GLA), mln sq m	7.77 / 4.18	
Opened in Q1-Q3 2011 (total space / GLA), mln sq m	0.26 / 0.15	
Scheduled to open in Q4 2011 (total space / GLA), mln sq m	0.24 / 0.16	
Vacancy rate, %	2.5	↓
Base rents, $ per sq m per annum (not including operating expenses and VAT)		
anchor tenants	100-500	↑
retail gallery tenants	700-4,000	↑
Operating expenses, $ per sq m per annum	80-260	→
GLA in quality shopping centres per 1000 population (Moscow), sq m	363	

* The table only shows data for professional shopping centres (a professional shopping centre is defined as one building or a group of architecturally connected buildings with total space in excess of 5,000 sq m, united by a single concept and under single management)

** Rates for stores with space of about 100 sq m on the ground floor

Source: Knight Frank Research, 2011

Main events

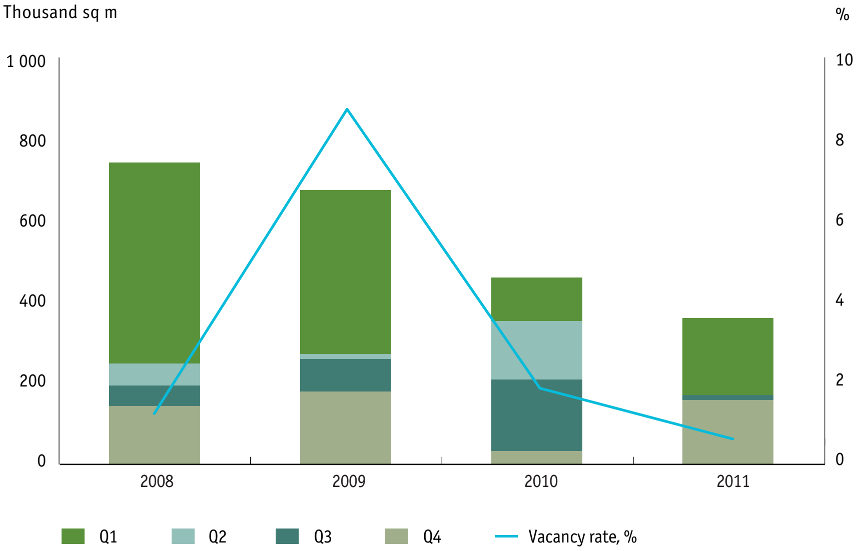
- YIT Moskovia, a subsidiary of the Finnish concern YIT Construction, announced plans for construction of several shopping centres in Moscow Region. The first complex will be built as part of a new residential district in the town of Pushkino and a further two projects will be developed in Ramensky and Krasnogorsky districts.
- Rekstal Group is preparing to open the 19,000 sq m Solnechniy shopping centre in the town of Solnechnogorsk. The first phase is commissioning in December 2011 and the second phase - in February 2012. Knight Frank is an exclusive consultant for concept design and lease of retail space in the project.
- A large number of transactions with retail real estate were completed in Q3. The largest transactions were as follows:
  - In August Romanov Property Holdings bought the Dream House shopping centre with total area of 13,000 sq m located on the Rublevo-Uspenskoe highway, 6 km from MKAD (the Moscow ring road).
  - Tashir Group announced acquisition of A.I. Raikin shopping and entertainment complex in the Mar'ina Roshcha district of Moscow. The company plans to invest more than $200 million in order to complete the project.
- The investment fund, UFG Real Estate, agreed to buy a number of assets from Capital Group: two business centres (Concord and Pushkinsky Dom) as well as the 9,000 sq m Metromarket shopping centre.
- Rostelecom plans to develop its own retail chain of 2,500 salons. The company intends to put 80% of the outlets under management of one of the existing Russian mobile telephone retailers, based on the results of a tender.

Shopping centres brought into operation Q1-Q3 2011

Name	Address	Total space (thousand sq m)	GLA (thousand sq m)
Shopping centre as part of the MonArch mixed-use complex	Bld. 1, 31 Leningradsky av.	16	10.7
Planernaya Interchange	Planernaya metro station	50.3	11
Afimall City	2 Presnenskaya emb.	179.4	114.2
Severnoye Siyaniye	1 Dmitria Donskogo blvd.	17	10

Source: Knight Frank Research, 2011

Rates of supply growth slowed down in 2011, causing further decrease of the vacancy rate



Sourse: Knight Frank Research, 2011

Supply

Openings of a number of Moscow shopping centres, which had been scheduled for third quarter, were postponed. Overall space at modern shopping centres in Moscow increased by 3.3% (263,000 sq m with 146,000 sq m GLA) in nine months of 2011 and reach a level of 7.8 million sq m (4.2 mln sq m GLA)*.

Limitations on construction of retail objects inside the Third Transport Ring conditioned by the authorities' policy on revision of investment projects caused focus of developers attention in the third quarter on projects in dormitory districts of Moscow and towns in Moscow Region. The Grenada shopping centre commissioned in August 2011 in the town of Lubertsy just outside Moscow (3 km from MKAD on the Novoryazanskoe Highway), and several more openings in Moscow Region are expected by the end of the year, including the first phase of the Solnechny shopping centre in the town of Solnechnogorsk.

It's worth noting that new retail projects' size is not typical for Moscow standards. Annually since 2006 four or more shopping centres of regional or super-regional scale have been brought into operation in Moscow. But this year only one such centre (Afimall city) was commissioned. Financing difficulties and concerns on economic uncertainty are shifting developers interest to smaller-scale projects.

Growth of supply in street retail is insignificant in comparison with shopping centres. Most of street retail expansion is linked to opening of new retail premises in mixed-used complexes. For example, the Bahetle opened a store in the Summit mixed-use centre during the third quarter.

Several Moscow residential developers have announced plans to install retail premises on the ground floor of new residential developments, which may give a substantial boost to street retail in the medium-term.

*We include in the Moscow market large retail centres located outside city limits but close to the ring road (MKAD), which serve city residents.

Q3 2011
RETAIL REAL ESTATE MARKET
Moscow


Otrada shopping centre,
2 Pyatnitskoye highway

Rental rates at Moscow shopping centres, Q3 2011

Type of premises	Area, sq m	Retail profile	Rate, $ per sq m per annum*
Anchor tenants	>5,000	Food hypermarkets	100-250
		Other retailers	150-250
	1,500-5,000	Food supermarkets, other retailers	250-400
	500-1,500	Food supermarkets, other retailers	300-600
Anchor tenants	300-500	Children's goods	400-1,000
		Clothing, footwear (ground floor and first floor)	600-1,200
	100-300	Clothing, footwear (ground floor and first floor)	800– 2,500
	50	Leather goods, bijouterie, gifts, jewellery, mobile phones (ground floor)	1,500–4,500

*Not including operating expenses and VAT (18%)

Source: Knight Frank Research, 2011

Demand

Several prominent clothing brands entered the Moscow market in Q3 2011, including Desigual (Spain), Victoria's Secret (US) and Banana Republic (US), while other retail chains expanded their presence. Retailers are following developers into the towns of Moscow Region: Azbuka Vkusa supermarkets opened a fourth store in the Region and the footwear chain, Obuv' Rossii opened three stores in Moscow Region during the summer and plans further openings by the end of the year.

Limited opportunities for expansion in the capital and increasing competition have encouraged main retail chains to focus on qualitative development. The biggest consumer electronics chains – Eldorado and M.Video – carried out rebranding during the summer and presented new store designs.

For now the new designs have been implemented only at a few stores, but eventually all stores will be updated. Azbuka Vkusa is rebuilding its oldest stores.

Several operators plan to open stores in new formats in the near future. For example Starik Khottabych plans to develop chain of mini-stores, which are half the size of the company's present standards. Svyaznoy plans to develop in Moscow department stores "Svyaznoy Market", offering a range of everyday goods in addition to its traditional cellular-related products, while Metro C&C is considering new openings in the corner-shop format.

Short supply in shopping centres contributes retailers development on street retail market. During Q3 growth rate of clothing retailers is approaching to traditional leaders of the segment – restaurants and banks.

Commercial conditions

The current situation on the Moscow retail real estate is determined by retailers large-scale development plans and very slow growth of supply. As a result there was further decrease of vacant premises in Moscow shopping centres during the third quarter. The vacancy rate decreased by 2.5% during the period and approached historic lows. The vacancy rate of premises in outdated complexes with poor location and/or with unsatisfactory design remains significantly higher than the market average rate and reaches 7-10%.

Intense competition between retail operators is enabling property owners to rotate tenants providing as a result rental rates increase.

Average rental rates in main street retail areas of Moscow Q3 2011	
Location	$ per sq m per annum
Most expensive streets inside the Garden Ring (Stoleshnikov ln., Tverskaya st., Petrovka st., Kamergersky ln.)	2,500-7,000
Other streets inside the Garden Ring (Kuznetsky Most st., Pyatnitskaya st., Arbat st., Bolshaya Yakimanka st., etc.)	1,500-3,000
Garden Ring	1,000-3,000
Main road arteries (Leningradsky av., Leninsky av., Komsomolsky av., Kutuzovsky av.)	1,000-2,500
Dormitory districts	500-1,500

Source: Knight Frank Research, 2011

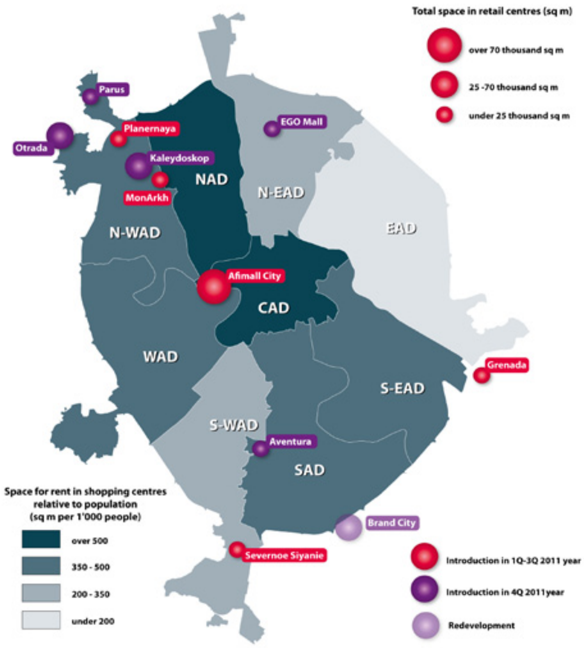
As a whole Moscow shopping centres rental rates demonstrate moderately positive trend: during Q3 rental rates grew by 7% on average. Operating costs remained unchanged in general, although there were increases at some shopping centres.

There was a small increase of rental rates in street retail during the third quarter. Since the begining of the year rental rates in the segment have increased by about 15%.

Forecast

Six shopping centres with total area of 250,000 sq m (165,000 sq m GLA) are commissioning by the end of the year. The Waymart shopping centre, located in Moscow Region 26 km from MKAD, is now redeveloping into an outlet centre.

As far as since last 2-3 years the construction of the most new projects was postponed, a shortage of retail space can be expected in the near future, which will probably cause further growth of rental rates.



Shopping centres commissioning in Q4 2011			
Name	Address	Total space (thousand sq m)	GLA (thousand sq m)
Kaleidoscope	7-23 Khimkinsky blvd	66.2	41
Parus	1 Novokurkinskoye hw.	35.5	25.8
Aventura	Bld. 2, 1 Severnoye Chertanovo micro-region	35	20
Confeti	7 Venevskaya st.	30	23
EGO Mall	23 Dezhneva passage	11.2	5.5
Otrada	2 Pyatnitskoye hw.	66.2	49.6

*Not including operating expenses and VAT (18%)

Source: Knight Frank Research, 2011

OVERVIEW

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Italy
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Poland
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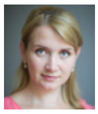
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Established in London more than a century ago, Knight Frank is the renowned leader of the international real estate market. Together with Newmark Company, Knight Frank's strategic partner, the company encompasses 243 offices in 43 countries across six continents.

Knight Frank has been a symbol of professionalism for tens of thousands of clients all over the world for 116 years. After 16 years, Knight Frank has become the leading company in the commercial, warehouse, retail and residential real estate segments of the Russian real estate market. More than 500 large Russian and international companies in Russia have already made use of the company's services.

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