



H1 2012 RETAIL REAL ESTATE MARKET

Moscow

Knight Frank

EXECUTIVE SUMMARY

- High levels of development activity were observed in the Moscow region retail property market during H1 2012.
- Three shopping centres have come to the market since the beginning of the year, adding 58,000 sq m of retail space to the total retail stock.
- Many retailers, especially international brands, have continued to expand their operations in the Moscow market.
- There were no significant changes in shopping centre rents and vacancy rates during H1 2012.

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Sergey Gipsh,
Retail Director Russia & CIS, Partner

“Today, an unprecedented number of large shopping centres which will be opened in the next few years are under construction in Moscow. Obviously, the opening date for some projects scheduled for 2012 could be postponed. As a result, we expect a boom in the completion of very large shopping centres in 2013-2014, which will radically change at the market. Older shopping centres, especially small ones, could suffer as customers change their shopping patterns. The redevelopment of such shopping centres could be the only solution for their owners. With traffic problems inevitable in construction areas, many Muscovites may change their shopping preferences in favour of centres with better transport access. In this regard, developers should pay special attention to shopping centre infrastructure, particularly transport access both for customers and delivery services and convenient parking areas”.

Main indicators. Shopping centres *		Trend
Total shopping centre stock (total area/GLA), million sq m	6.28/3.36	↑
Opened in H1 2012 (total area/GLA), thousand sq m	58.5/31.6	
Scheduled to open in H2 2012 (total area/GLA), thousand sq m	1,025/506	
Vacancy rate, %	2.5	⇌
Base rents, \$ per sq m per annum (not including operating expenses and VAT)		
anchor tenants	100-500	⇌
retail gallery tenants	700-4,500**	⇌
Operating expenses, \$ per sq m per annum	80-260	⇌
GLA in quality shopping centres per 1,000 population	289	↓

* The table refers only to high quality, professional retail properties. A professional shopping centre is a standalone building or a group of buildings sharing the same architectural style, concept and under common management, with a total area of more than 5,000 sq m.

** Applicable to stores of approximately 100 sq m located on the ground floor.

Main events

- In H1 2012, the Moscow authorities continued to review investment contracts. As a result, a mixed-use centre with 190,000 sq m GBA in Yasenevo district was cancelled, while one of the most grandiose projects in the city, Aviapark, received approval.
- In Q1, several new retail projects were announced:

The construction of a shopping and leisure centre in South Butovo (GBA – 142,000 sq m) was started in Q2 2012.

BIN Group announced plans for the construction of a mixed-use centre called Galaxy Park (GBA – 700,000 sq m) at Warszawskoye Hwy, which will include a shopping and leisure centre of 100,000 sq m.

The Moscow authorities approved the construction of a new shopping centre of 200,000 sq m GBA in place of Prazhsky market.

OPIN Group announced two projects: a retail park at Dmitrovskoe Hwy (GBA – 30,000 sq m) and a shopping centre in the town of Aprelevka (GBA – 8,000 sq m).

- Several investment deals were concluded in H1 2012 in the Moscow Region:

In March, companies owned by Peter Shura (RGI International, Rusresorts) acquired a 50% share of the Mozaika shopping and leisure centre project from TriGranit Development Corporation (GBA – 134,000 sq m)

At the end of H1 2012, Immofinanz Group acquired the remaining 50% share of the Zolotoi Vavilon Rostokino shopping centre.

Romanov Property Holdings Fund acquired 40% of the Vremena Goda shopping centre.



Supply

In H1 2012, three shopping centres with total area of 58,500 sq m (GLA – 31,600 sq m) were opened in Moscow:

- The retail gallery of the Moskva Hotel (GBA – 30,000 sq m, GLA – 20,000 sq m);
- EGO Mall shopping centre (GBA – 11,200 sq m, GLA – 5,500 sq m);
- Sombrero shopping centre (GBA – 17,300 sq m, GLA – 6,100 sq m).

Thus, the total stock of modern shopping centre space grew by only 1% in H1, which is the lowest increase in the last five years. As a result, at the end of H1 2012, the total amount of retail space in modern shopping centres in Moscow was 6.3 million sq m (GLA – 3.4 million sq m).

There were no large shopping centres opened during H1, despite the previously announced plans of developers. The new supply consisted of two local shopping centres, and one scheme in the prime segment.

Developers remain highly active, maintaining the trend of the previous year. They have continued to announce plans to commence the construction of new projects, and to complete shopping centres that had been planned for delivery some time ago. Several large shopping centres are now simultaneously under construction. As an example, the Moscow authorities gave approval to Amma Development for the construction of the Aviapark mixed-use centre. The developer plans to start construction on the project in Q3 2012.

Another large shopping centre will be built at Warshawskoye Hwy, as part of the mixed-use Galaxy Park complex (GBA – 700,000 sq m). Meanwhile, the Mozaika shopping and leisure centre project (GBA – 134,000 sq m) has been revived after previously being cancelled.

New developers have entered the retail real estate market. In particular, the former owners of the Paterson retail chain, who currently own TC-Development Ltd, are reported to be prioritising new shopping centre developments. Millhouse Capital UK Ltd also plans to commence its first retail project, a shopping and leisure centre in Skolkovo.

The Moscow region retail market continues to develop rapidly, with new shopping centres opening and outdated centres being redeveloped. In June, the Gallery shopping centre (previously known as Driada shopping centre) opened in Podolsk, with a total area of 15,000 sq m (GLA – 11,000 sq m). The redevelopment of Odintsovo Twin Market shopping centre (GBA – 10,000 sq m) has been announced. Unlike the current centre, the new concept for this includes leisure facilities and a more convenient parking area.

Among the large retail projects which are currently under construction, it is also worth noting the following: June shopping centre (GBA – 178,000 sq m, GLA – 75,000 sq m), the 2nd phase of Krasny Kit shopping and leisure centre (GBA – 68,100 sq m, GLA – 47,200 sq m) in Mytischki and Zhuk shopping centre (GBA – 45,800 sq m, GLA – 32,700 sq m) in Zhukovskiy.

Developers' concerns over revisions to the Moscow region's development strategy following changes to the authorities* appear to be justified. A commission for the review of investment contracts has been created. Given that the authorities are currently focused on improving the infrastructure

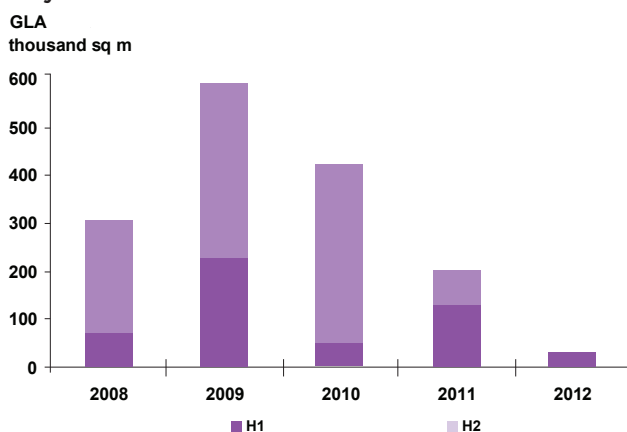
* In March 2012 Sergey Shoigu took office as Moscow Region Governor

Shopping centres opened in H1 2012

Project	Address	Total area (thousand sq m)	GLA (thousand sq m)
Retail gallery of Moskva hotel	2 Okhotniy Ryad St	30	20
EGO Mall	23 Dezhneva passage	11.2	5.5
Sombrero	152A Warshawskoye Hwy	17.3	6.1

Source: Knight Frank Research, 2012

The new supply volume in H1 2012 was the lowest in the last five years



Source: Knight Frank Research, 2012

of the Moscow region, we expect growth in social-oriented projects, especially those with both retail and leisure areas.

Demand

According to the Watcom Company, footfall in Moscow shopping centres in H1 2012 was similar to H1 2011. However, consumer lending grew by 24% while retail turnover, despite the slowdown, grew by 2.6% over the period. This may be a result of increases in the average spending in certain shops, which is reflected in sharp rises in the turnover of some retailers, such as Inditex and H&M. In addition, the strengthening of the position of many companies involved in e-commerce has also had an impact on the market. Food chains such as Sed'moi Kontinent, Perekrestok and Auchan have been highly active in this segment.

Currently, Metro Cash & Carry are working towards the launch of their first online shop in Russia. Hypermarkets selling consumer electronics are optimizing their businesses by integrating their online and physical operations. For example, at M.Video hypermarkets, there are e-catalogues which provide customers with the opportunity to order currently unavailable goods. The computer and electronics chain RIK has taken a similar path in developing its business, recently opening its first shop where the ordering and distribution of a purchase are integrated.

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The retail gallery of the Moskva hotel, 2 Okhotniy Ryad St

The development of new retail formats is one of the main current trends in the market, with food chains being among the most innovative retailers. In order to expand their target audience, food chains have opened different type of shops, including hypermarkets, supermarkets and convenience stores. For example, Real opened its first supermarket, while Metro Group brought two new formats into the market; Metro punkt (1,500-2,000 sq m) and a franchise chain of convenience stores Fasol' (50-150 sq m).

Food retailers have opened outlets that differ from their usual operations in terms of their interior design, menu and overall concept. Coffee House opened a "full cycle caf", at which everything is cooked on-site, while Rosinter opened Il Patio Vita Fresco restaurant.

Retailers have continued to expand by opening stores in new cities and regions of Russia. During the review period, Detskiy Mir opened its first stores in Orsk, Yaroslavl, Saransk, Cheboksary and Serpukhov. Among other retailers to have entered new regions are Zolla (Severodvinsk), Pyaterochka (Kirov), Obuv.com (Novosibirsk) and KFC (Nizhniy Novgorod). Inditex brands have appeared in Ufa and are coming soon to Mytischki. Eldorado, Magnit, Subway and Gloria Jeans are also pursuing a policy of strengthening their presence in the Russian regions.

International brands have been highly active, with some opening their first shops in Russia, while others have expanded their existing portfolios within the market.

The first Paul's boulangerie in Russia was opened at Tverskaya St, while Boggi and Ballantyne boutiques were opened in the retail gallery of the Moskva hotel and the GUM shopping centre, respectively. A number of international retailers opened stores in the most popular shopping centres of Moscow. The legendary Hamley's toy store and Mamas & Papas opened at Evropeiskiy shopping and leisure centre, an American beauty

shop Bath & Body Work was opened in Atrium shopping and leisure centre and the first Scotch & Soda appeared in Metropolis shopping and leisure centre. The first Ecco Kids store in Russia was opened in MEGA Belaya Dacha shopping and leisure centre.

Competition within the market has contributed to the development of new retail trends. For example, retailers have increasingly attempted to develop more "spectacular" shops, where consumers get a recreation and leisure experience in addition to retail activity. Among the federal retailers to have introduced this format is the newly opened household goods shop Cook House.

Commercial terms

Due to the relatively low amounts of new supply and high levels of activity from retailers, the vacancy rate in modern retail centres remained at 2-2.5%. Landlords aim to optimize their brand portfolios and may not rush into extending existing lease contracts. In large part, this is due to the high level of competition among retailers and the ambitious expansion plans of international chains.

Popular existing shopping centres continue to have "waiting lists" of potential tenants, whereas new centres may enter the market without being completely filled by tenants. This is partly because retailers will often delay signing lease contracts while a new project is under construction, preferring to wait until closer to its opening, so that they can, explore its positioning in the market and evaluate the tenant mix.

Rental rates in modern shopping centres in Moscow, H1 2012

Type of premises	Area, sq m	Retail profile	Rental rates, \$ per sq m per annum*
Anchor tenants	>5,000	Food hypermarkets	100-250
		Other retailers	150-300
	1,500-5,000	Food supermarkets, other retailers	250-500
	500-1,500	Food supermarkets, other retailers	300-700
Retail gallery	300-500	Children's goods	400-1,200
		Clothing, footwear (ground floor and first floor)	600-1,500
	100-300	Clothing, footwear (ground floor and first floor)	800-3,000
	50	Leather goods, bijouterie, gifts, jewellery, mobile phones (ground floor)	1,500-5,000

* Not including operating expenses and VAT (18%)

Source: Knight Frank Research, 2012



Many developers, not being confident of the current economic situation, are adopting a "wait-and-see" position. As a result, they have kept rents unchanged since the end of last year.

Forecast

More than 20 shopping centres, with total retail area of 1 million sq m (GLA – 500,000 sq m), are scheduled to open in H2 2012. 70% of the future supply is in local shopping centres with a GLA of less than 30,000 sq m. Among the regional centres are well-known schemes such as River Mall shopping and leisure centre (GLA – 88,500 sq m) and Goodzon shopping and leisure centre (GLA – 65,500 sq m).

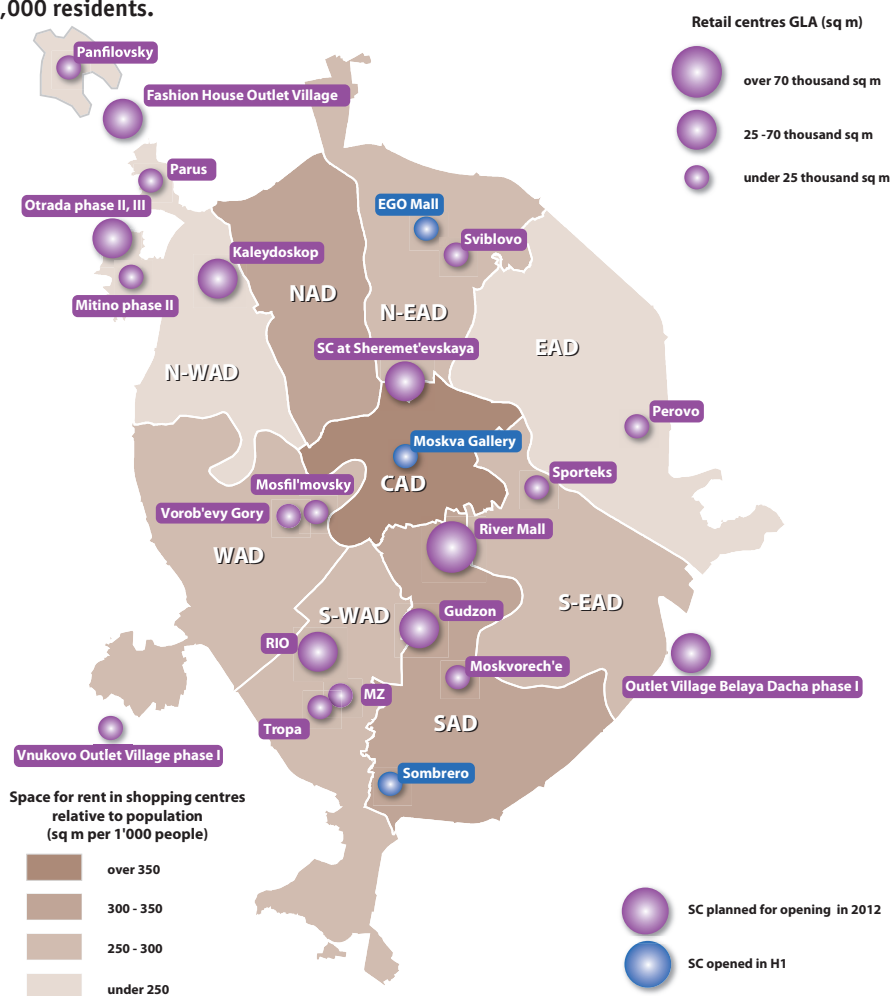
However, we expect some of the shopping centres due for delivery in H2, especially the larger ones, to be rescheduled. Thus, the total new retail supply in H2 2012 is not expected to exceed 330,000 sq m.

The most highly anticipated event of H2 2012 in the retail real estate market is the August opening of the first outlet mall in Russia, Outlet Village Belaya Dacha (GLA – 38,000 sq m). In addition, there are two similar projects scheduled for opening later in the year. However, we believe that the opening of these outlet centres may be delayed until next year.

International brands will continue to enter the Russian market. In August, the first Michael Kors boutique will open in Metropolis shopping and leisure centre. Peek & Cloppenburg is planning its second attempt to enter the Russian market. In the autumn, Debenhams will return to Russia, after previously opening a department store in 2006 which was then closed in 2008.

It is also worth mentioning the high activity of restaurant operators. Bennigans pubs (Ireland), Quiznos (Japan) and Monument (Serbia) restaurants have announced plans to open in Russia. Other food chains including Kesko Foods, 7 Eleven and Marks & Spencer Simply Food are possible entrants to the market.

Shopping centres opened in H1 2012 or scheduled to open in H2 2012. Retail space per 1,000 residents.



Source: Knight Frank Research, 2012

Main shopping centres scheduled for opening in H2 2012

Project	Address	Total area (thousand sq m)	GLA (thousand sq m)
River Mall	16-18 Avtozavodskaya St	258	88.5
Goodzon	12 Kashirskoye Hwy	122	65.5
Kaleydoskop	7-23 Khimkinsky Blvd	119*	41
Outlet Village Belaya Dacha phase I	Kotelniki, 5 Yanichkin passage	38	38
RIO (GLOSS)	109, Leninsky Ave	76	35
SC at Sheremet'evskaya	8 Sheremet'evskaya St	75	35
Otrada phase II, III	2 Pyatnitskoye Hwy	44	29.9
Fashion House Outlet Village Centre	Chernaya Gryaz, Leningradskoye Hwy	38.5	28.7

* Total GBA of mixed-use centre Kaleydoskop

Source: Knight Frank Research, 2012

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