



Q1 2012
**RETAIL REAL ESTATE
MARKET**
Moscow
Knight Frank

EXECUTIVE SUMMARY

- High developers' activity was observed in Q1 2012 at retail real estate market in Moscow Region.
- Two shopping centres were commissioned from the beginning of the year: the supply of total retail space increased by 41 thousand sq m.
- Retailers, especially food chains, continue expansion at both Moscow and region markets.
- There were no significant changes in rental rates and vacancy rate at shopping centres observed in first months of 2012.

Q1 2012 RETAIL REAL ESTATE MARKET

Moscow

RETAIL REAL ESTATE MARKET



Sergey Gipsh
Regional Retail Director,
Partner,
Knight Frank

«Today we observe an interesting period of Moscow retail market development. The city's provision with retail area reached such level when residents choose shopping centre according to personal preferences rather than limited supply.

Value of architectural concepts, original interior solutions and non standard content increases. It's pleasant to see that even local shopping centres pay attention to these issues. Successful examples of this are retail objects commissioned in Q1 2012».

Main events

- In 2012 Moscow authorities continued revision of investment contracts. In particular, mixed-use centre of 190 thousand sq m GBA in Yasenevo district was cancelled.
- In March Boris Gromov (Moscow Region Governor) resignation was announced. In this connection revision of investment contracts and temporary stoppage of authorizing documents issuing in the region seems very probable.
- Several acquisition deals were held in the first months of 2012 in the Moscow Region:

In March structures of Peter Shura (RGI International, Rusresorts) acquired a 50% share of TriGranit Development Corporation in project of shopping and leisure centre Mozaika (GBA – 134 thousand sq m).

REWE Group bought-out 12 stores (Sitistore) of ENKA TC Ltd. These stores will be further converted to Billa supermarkets.

- In Q1 several new retail projects were announced:

* On April 5th Sergey Shoygu was appointed to the position of Moscow Region Governor.

| Main indicators. Shopping centres* | | Trend |
|--|--------------|-------|
| Total supply at operating centres (total area / GLA**), mln sq m | 6.63 / 3.58 | |
| Opened in Q1 2012 (total area / GLA), thousand sq m | 41 / 26 | |
| Scheduled to open in Q2 2012 (total area / GLA), thousand sq m | 59 / 31 | |
| 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 | 291 | |

* 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.

** Gross leasable area

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

Source: Knight Frank Research, 2012

OPIN Group introduced two projects: retail park at Dmitrovskoe Hwy (GBA – 30 thousand sq m) and shopping centre in Aprelevka town (GBA – 8 thousand sq m).

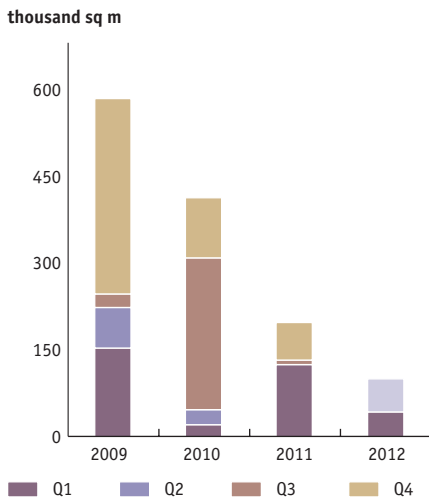
MD Group announced plans for starting construction of shopping and leisure centre in South Butovo (GBA – 142 thousand sq m) in Q2.

Millhouse Capital UK Ltd plans to begin construction of shopping centre at intersection of MKAD and Skolkovskoe Hwy (GBA – 100 thousand sq m).

Moscow authorities plan to erect shopping (GBA – 200 thousand sq m) at the place of Prazhskiy market.



New supply volume in 2012 is three times lower than in the same period in 2011



Source: Knight Frank Research, 2012

Supply

In Q1 2012 two shopping centres with total area of 41 thousand sq m (GLA – 25.5 thousand sq m) were commissioned: retail gallery of Moskva hotel (GBA – 30 thousand sq m, GLA – 20 thousand sq m) and EGO Mall (GBA – 11.2 thousand sq m, GLA – 5.5 thousand sq m). It's worth to mention that commissioning of these object was planned in 2011.

Thus, as of March 2012 total retail area supply in modern shopping centres of Moscow was 6.3 mln sq m (GLA – 3.6 mln sq m).

In the beginning of 2012 (in prolongation of previous year's trend) developers activity remained at high levels. In particular, ex-owners of Paterson retail chain (owners of TC-Development Ltd at present) as a priority line choose sphere of shopping centres development. At present time their interest is concentrated at retail real estate market of the Moscow Region. Millhouse Capital UK Ltd plans to start realization of the first retail project (shopping and leisure centre in Skolkovo). TEN Group announced project of Graivoronovo manufacture land development with retail part (shopping centre of 63 thousand sq m GBA, 33 thousand sq m GLA).

Developers' interest to Moscow Region cities remains in force. Among large retail objects which are in phase of construction at present it stands to note following: SC June (GBA – 178 thousand sq m, GLA –



Retail gallery of Moskva hotel
2 Okhotniy Ryad St

Shopping centres commissioned in Q1 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 |

Source: Knight Frank Research, 2012

75 thousand sq m), 2 phase of SLC Krasniy Kit (GBA – 68.1 thousand sq m, GLA – 47.2 thousand sq m) in Mytishi, SC Zhuk (GBA – 45.8 thousand sq m, GLA – 32.7 thousand sq m) in Zhukovsky.

Change of regional authorities (in March 2012 Boris Gromov—Moscow Region Governor—resignation was announced) makes probable revision of region's development strategy including construction sphere. Market participants are concerned about possible investment contracts' revision and temporary stoppage of authorizing documents issuing. Considering poor modern retail area provision and high levels of housing construction in the region, we expect renewed authorities to show interest in projects with retail and leisure components.

Demand

In Q1 2012 further consumer demand growth continued what is witnessed by retail turnover growth by 2.5% over the period. Herewith, we observed slowing down of the indicator rate over the same period of previous year.

Shopping centres footfall generally remained in comparison with Q1 2011. However, according to Watcom Company footfall rate decreased what can be explained by total supply growth at Moscow retail real estate market from April 2011 to March 2012.

Against consumer demand growth retail chains continue expansion at both Moscow and region markets. Besides large Russian cities, retailers consider cities with

Q1 2012 RETAIL REAL ESTATE MARKET

Moscow

population under 300 thousand people. So, first Zolla store was opened in Severodvinsk, Pyaterochka supermarket—in Kirov. Auchan and X5 Retail Group announced their plans for opening stores in Ul'yanovsk.

New international brands enter Russian market: first Paul's boulangerie was opened at Tverskaya St, Boggi boutique was opened in retail gallery of Moskva hotel. Present international retailers reinforce their market share in Russia through opening new stores and expanding brand portfolio. So, first Ecco Kids store was opened in shopping and leisure centre MEGA Belaya Dacha.

Retailers continue developing new formats of trade. Food retailers open institutions differing from traditional by interior, menu and overall conception: Coffe house opened complete cycle café, Rosinter opened IL Patio Vita Fresco restaurant.

Podium opened Podium market – the first department store which differs from traditional shops with multiplied area (7 thousand sq m) and a wide range of goods. In the beginning of the year 36,6 company introduced a new drugstore discounter chain LEKO.

The most proactive retailers were food chains. In order to expand target audience food chains open different type of shops: hypermarket, supermarket, convenient stores. For example, Real opened it's first supermarket, X5 Retail Group and Metro Group intent to develop chain of convenient stores. OKEY announced sooner opening of DA discounters chain.



EGO Mall
23 Dezhneva passage

In Russian Federation general requirements and classification of retail companies are established by government standard GOST P 51773-2009.

According to the paper, retail companies are classified by several types depending on retail area and range of goods.

Hypermarket is a universal retail store with retail area over 4,000 sq m, a wide range of goods including ones produced under self-brand. Distinctive feature is presence of food production manufacture.

Supermarket is a universal retail store with retail area over 600 sq m, a wide range of food goods and a limited range of convenience goods.

Convenience store is a nonspecialized store of mixed range goods and retail area over 60 sq m.

Rental rates in modern shopping centres in Moscow, Q1 2012

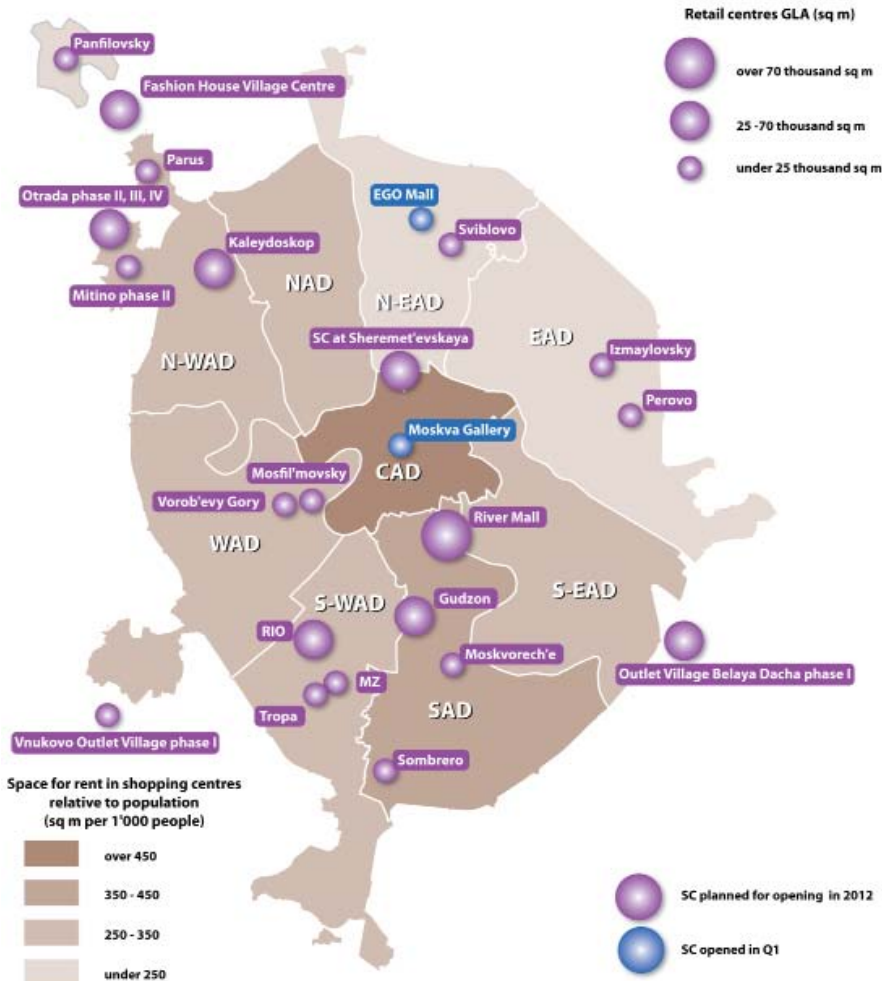
| Type of premises | Area, sq m | Retail profile | Rate, \$ per sq m per annum* |
|------------------|-------------|---|------------------------------|
| Anchor tenants | >5,000 | Food hypermarkets | 100-250 |
| | | Other retailers | 150-300 |
| | 1,500-5,000 | Food supermarkets, other retailers | 250-500 |
| | 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 |
| | | 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



Shopping centres commissioned in Q1 2012. Shopping centres scheduled to open in 2012. Retail space per 1,000 residents



Source: Knight Frank Research, 2012

Commercial terms

Vacancy rate in modern retail objects remained at the level of 2.5%. As before, new objects keep on entering market not completely filled by tenants. Often retailers don't rush signing lease contract in objects under construction

preferring waiting for commissioning, exploring it's positioning at the market, evaluating tenant mix etc.

Rental rents also remained at the level of the end of previous year. However in several objects we observed significant increase of rental rates.

| Shopping centres scheduled for opening in Q2 2012 | | | |
|---|------------------------|----------------------------|---------------------|
| Project | Address | Total area (thousand sq m) | GLA (thousand sq m) |
| MZ | 36 Miklukho-Maklaya St | 15.7 | 13 |
| Sviblovo | 27 Snezhnaya St | 18.2 | 6.3 |
| Sombrero | 152A Warszawskoe Hwy | 17.3 | 6.1 |
| Tropa | 118 Profsouznaya St | 7.8 | 5.5 |

Source: Knight Frank Research, 2012



Forecast

More than 20 shopping centres with total retail area of 1 mln sq m are scheduled to open till 2012. However, due to high probability of reschedule, total retail area growth till the end of the year could be about 450 thousand sq m (excluding retail area of shopping centres opened in Q1).

Future supply is mainly presented by local shopping centres. Exceptions are SLC Gudzon (GLA – 65.5 thousand sq m) and SLC Kaleidoskop (GLA – 41 thousand sq m) scheduled to open in the first half of the year. The most expected event in retail real estate is opening of the first outlets, for example Outlet Village Belaya Dacha (GLA – 25 thousand sq m).

Besides, in 2012 some international brands will enter the market. In particular, first Hamley's toy store will open at SLC Evropeiskiy in May. Till the end of the year Debenhams plans to return at the market (first time department store was closed in 2008 after opening in 2006).



OVERVIEW

Europe

Austria
Belgium
Czech Republic
France
Germany
Ireland
Italy
Monaco
Poland
Portugal
Romania
Russia
Spain
Switzerland
The Netherlands
UK
Ukraine

Africa

Botswana
Kenya
Malawi
Nigeria
Tanzania
Uganda
Zimbabwe
Zambia
South Africa

Middle East

Bahrain
UAE

Asia Pacific

Australia
Cambodia
China
India
Indonesia
Malaysia
New Zealand
Singapore
South Korea
Thailand
Vietnam

Americas & Canada

Bermuda
Caribbean
Canada
USA



Office Real Estate

Stanislav Tikhonov
Partner
stas.tikhonov@ru.knightfrank.com



Warehouse Real Estate, land

Viacheslav Kholopov
Regional Director
viacheslav.kholopov@ru.knightfrank.com



Retail Real Estate

Sergey Gipsh
Regional Director, Partner
sergey.gipsh@ru.knightfrank.com



Residential Real Estate

Elena Yurgeneva
Regional Director
elena.yurgeneva@ru.knightfrank.com



International Investments

Heiko Davids
Partner
heiko.davids@ru.knightfrank.com



Professional Consulting Services

Konstantin Romanov
Partner, Director
konstantin.romanov@ru.knightfrank.com



Financial Markets and Investing

Evgeniy Semyonov
Partner, Director
evgeniy.semyonov@ru.knightfrank.com



Valuation Services

Olga Kochetova
Regional Director
olga.kochetova@ru.knightfrank.com



Marketing, PR, Market Research, HR

Maria Kotova
Partner, Executive Director
maria.kotova@ru.knightfrank.com



Business Development

Andrey Petrov
Partner
andrey.petrov@ru.knightfrank.com



Saint Petersburg

Nikolai Pashkov
General Director
nikolai.pashkov@ru.knightfrank.com



Kyiv

Yaroslava Chapko
Business Development Director
yaroslava.chapko@ua.knightfrank.com

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.

This and other Knight Frank overviews can be found on the company website www.knightfrank.ru

© Knight Frank 2012

MOSCOW

Russia, 119021,
11 Timura Frunze Str.
Phone: +7 (495) 981 0000
Fax: +7 (495) 981 0011

ST. PETERSBURG

Russia, 191025,
3B Mayakovskogo Str.
Phone: +7 (812) 363 2222
Fax: +7 (812) 363 2223

KYIV

Ukraine, 04071,
39-41 Horyva Str.
Phone: +380 (44) 545 6122
Fax: +380 (44) 545 6122

This overview is published for general information only. Although high standards have been used in the preparation of the information, analysis, view and projections presented in this report, no legal responsibility can be accepted by Knight Frank Research or Knight Frank for any loss or damage resultant from the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank in relation to particular properties or projects.

Reproduction of this report in whole or in part is allowed with proper reference to Knight Frank.