



H1 2013 RETAIL MARKET REPORT

Moscow

HIGHLIGHTS

- Six retail objects, as well as phase 2 of shopping and entertainment centre Otrada, have been commissioned in H1 2013, increasing the total stock of retail space in modern shopping centres by 231 thousand sq m.
- Against the background of the recovery of retailers during the considered period, the vacancy rate in functioning shopping centres of Moscow still remained at a low level of 3%.
- Commercial conditions during the H1 2013 remained stable, while current average rental rate of the most successful shopping centres of \$4,130 per sq m has allowed Moscow to hold second place among European cities in terms of this indicator.

RETAIL MARKET REPORT



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"Results of the first half of the year indicate that in the current year 2013 we are likely not going to see a record high growth of shopping centres on the Moscow retail market. However, the year promises to be interesting primarily due to the diversity and quality of projects under development. There is no monotony on the market: many developers are willing to experiment with formats, consider unusual concepts, develop difficult sites; retailers offer shoppers creative modes of cooperation. All of this on the one hand promotes attractiveness of modern malls in the visitors' eyes; on the other hand, however, it greatly complicates the task of property management companies, whose professionalism and initiative come to the fore under such circumstances".

Main events

Developers continue to announce new projects of shopping centres and are initiating construction of the announced ones:

- By the end of 2015, TPS Real Estate Company will build a shopping centre with a total area of over 130 thousand sq m near the metro station Polezhayevskaya.
- The MD Group Company has started construction of a shopping centre Butovo Mall, with a total area of over 140 thousand sq m.
- Tushino airfield development project involving construction of approximately 2 mln sq m of residential and commercial properties, including shopping and entertainment centre (GLA – 75 thousand sq m) in the immediate vicinity of the future metro station Spartak has been approved.
- The CBA Torgovy Centr Company resumed construction of a shopping centre Zhuk

Key indicators. Shopping centres		Trend
Total shopping centre stock (total area/GLA)*, mln sq m	7.00 / 3.72	▲
Opened in H1 2013 (total area/GLA), thousand sq m	231 / 147	
Scheduled to open in 2013 (total area/GLA), thousand sq m	443 / 237	
Vacancy rate, %	3	▲
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 1,000 population	311	▲
* 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, 2013		

(GLA – 30 thousand sq m) in the town of Zhukovsky.

Investment activity on the market remains high:

- Shopping centre Gallereya on Tverskaya Street, shopping and entertainment centre Shjuka and shopping centre Torgovy Kvartal at Domodedovo are put up for sale.
- Investment Fund Morgan Stanley has increased its Russian assets by acquiring shopping and entertainment centre Metropolis with a total area of 205 thousand sq m from the Capital Partners Company.

Supply

Six retail objects were commissioned in H1 2013, furthermore, phase 2 of shopping and entertainment centre Otrada was opened, which increased total stock of retail space in modern shopping centres by 231 thousand sq m (GLA – 147 thousand sq m). It is noteworthy that new format properties continue to emerge on the market. For instance, in May and June, outlet centres Vnukovo Outlet Village and Fashion House opened in sequence: they are located along the Kievsky and Leningradsky highways respectively. While the former is designed in the traditional outlet for-

mat of a shopping village, the latter is an indoor shopping centre, which can be counted among its benefits, considering Russian climate. Moreover, a specialized shopping and entertainment centre of sporting goods and equipment with multiplex – Sportex – was commissioned. The largest complex delivered in the first half of the year is shopping and entertainment centre Rio on Leninsky Avenue.

Thus, the total stock of retail space in modern shopping centres increased by 3% and reached a figure of 7 mln sq m.

Moscow authorities continue revising investment contracts actively using the tool of unilateral contract termination. Of all the canceled contracts in the first half of the year, 20% were terminated in this way. Among them were well known construction projects: the underground shopping centres at Pushkinskaya and Paveletskaya squares. At the site of the last one metropolitan administration plans to build a transportation hub, including commercial properties.

In H1 2013 in Russia (with the exception for the Moscow region), more than 10 shopping centres with a total area of over 550 thousand sq m (GLA – over 300 thousand sq m) were commissioned. Of particular note is a surge in the development of



Vnukovo Outlet Village
Kievskoe Hwy, 8 km from MKAD

Shopping centres commissioned in H1 2013

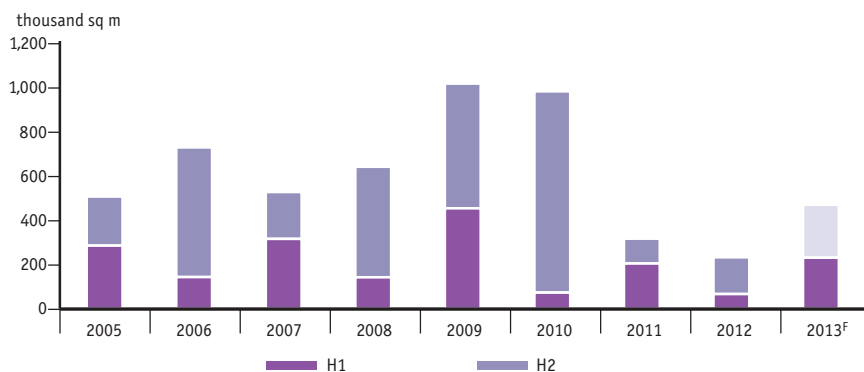
Project	Address	Total area (sq m)	GLA (sq m)
Rio Leninsky	109 Leninsky Ave	75,000	35,000
Fashion House Outlet Centre, phase 1	Chernaya Gryaz, Leningradskoe Hwy	38,580	28,765
Sportex	2 5th Kabelnaya St	32,000	22,000
Vnukovo Outlet Village, phase 1	Kievskoe Hwy, 8 km from MKAD	29,736	16,584
VDNH	55 1st Ostankinskaya St	23,000	19,500
Tropa	118 Profsovnaya St	7,800	5,500

retail real estate market of the eastern regions of Russia: Novosibirsk completed redevelopment of a shopping centre Malinka, while in Surgut 2 phase of Surgut City Mall was opened, as did shopping and entertainment centre Festival in Angarsk.

Demand

Retailers continue to expand their geographic presence. Rapid expansion of retail chains became possible in part through the use of franchising. Markets in the cities of Central, Volga and Southern federal districts still remain the most developed regions in terms of retailers' presence; however, we also can talk about growth of interest of both federal and international companies towards remote regions (East Siberia and the Far East). For example, the operator Metro Cash & Carry plans to develop a chain of stores in the Primorsky region; the first Detskii mir store was opened in the shopping and entertainment centre Festival in the city of Angarsk; in Vladivostok – Budu mamoy store; in Novosibirsk, Tomsk and Krasnoyarsk

Retail space growth in 2005 - 2013



Source: Knight Frank Research, 2013

the first McDonald's restaurants are soon to be opened. In April, the first supermarket Magnit with an area of 714 sq m opened in the city of Kandalaksha in Murmansk region, located above the Arctic Circle.

In general, one can note that while diversifying risks and focusing on expanding consumer base, many chains are creating new store formats.

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The “pop-up store” format is growing in popularity. Commercial operators who would like to explore new market without making a major investment often use the format. For example, the U.S. company Razor (products for outdoor recreation) has launched a Russian online store and opened a corner, which will work only during the summer period in the shopping centre Filion; a perfume “pop-up store” Maison Martin Margiela will operate until the end of August in a department store Tsvetnoy; in early June a temporary store Debenhams has opened in the Outlet Village Belaya Dacha.

There appeared “guerrilla store” format facilities. Such stores open in unexpected places normally unsuitable for retail: abandoned warehouses or small apartments, and close immediately after the sale of goods. Famous retailers such as Comme des Garçons, Target, Uniqlo, often exploit the concept of “guerrilla store”. Market re-entry of the brand Sultanna Frantsuzova occurred in the Q2 2013, which was marked by an opening of a “guerrilla store” in the former factory building of RTI-Rubber (Russian Sultanna Frantsuzova shops were closed since 2007).

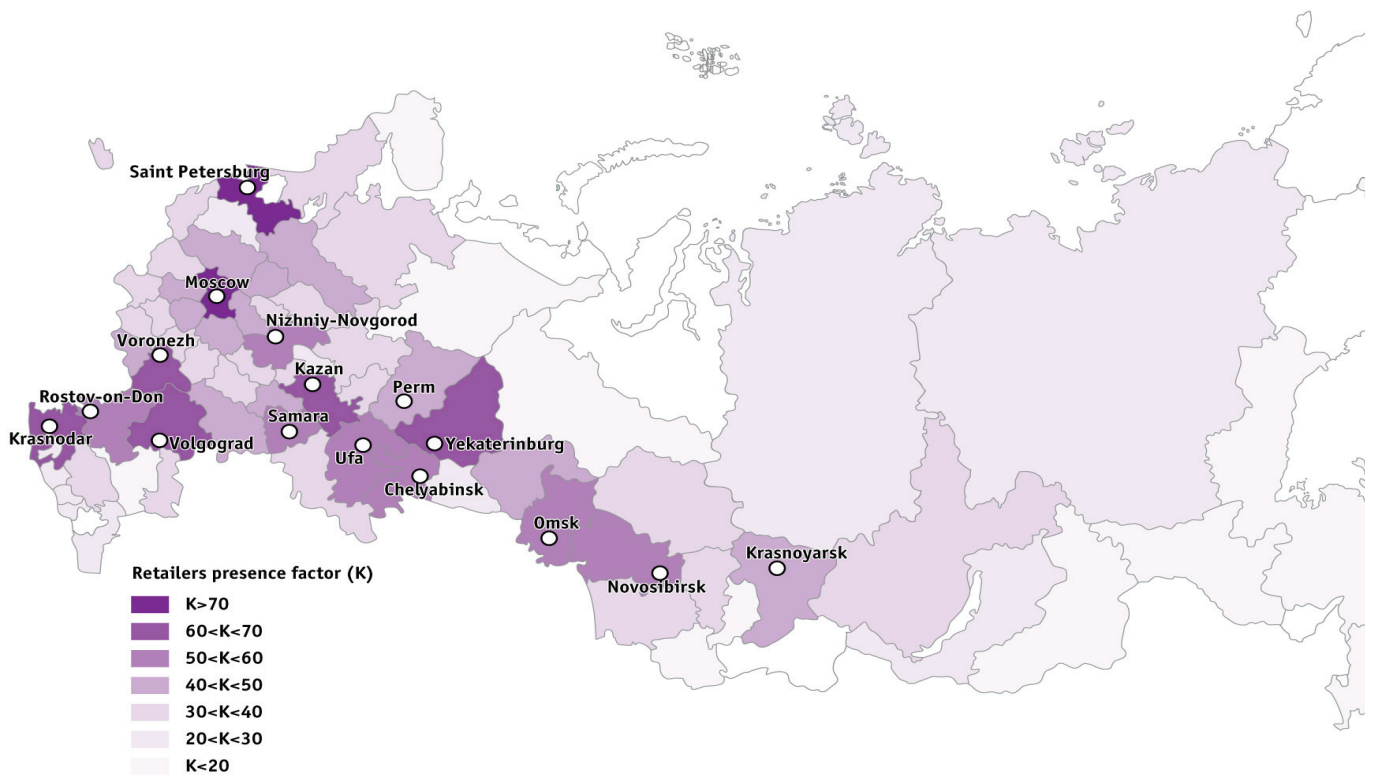
In Q2 2013, several international retailers opened their first stores in the Russian capital: expansion of a German fashion retailer Takko Fashion has started from the Moscow market, Missoni Home furniture boutique opened in shopping centre Dream House on Rublyovo-Uspensky Highway, mono-brand store HARMAN (home, car and professional sound systems) will be opened in the near future on Kuznetsky Most street. In addition, the Italian brand boutique Alcozer & J (jewelry and bijouterie) opened in Saint Petersburg.

Catering chains develop more actively than the other retailers: in Q2 2013, American chain Smoothie Factory came to Moscow (cafes opened in the shopping centre Gallery Airport and shopping and office centre Tulskiy); official opening of the first coffee house Lavazza Espresso (NTK

Town Restaurants is exclusively in charge of the chain development) took place in April; French cafe Hediard of 50 sq m (the first object of this chain was opened in Moscow in 2011) opened in May in the shopping centre Moscow Gallery; U.S. restaurant chain Johnny Rockets entered the Russian market with the support of a partner American Diner Company.

The first objects of an international chain of chocolate bars Max Brenner (franchise acquired by a group of companies Shokoladnitsa), as well as a Krispy Kreme Doughnut cafe, are expected to appear on the Russian market in the near future. Furthermore, the company Focus Brands Inc., which is familiar to Russian buyers with sweet cinnamon buns, Cinnabon, plans to develop a restaurant chain Schlotzsky's together with Russian partner.

Rating of Russian regions by presence of 30 largest retailers*



* Rating of a region is provided to the information on 30 largest (by retail turnover) food, home appliances, apparels, cinemas, and DIY retailers.

Source: Knight Frank Research, 2013

The “store +” format, involving a combination of different trade concepts (bookstore, library, cafe, supermarket, clothing boutique, etc.) in a single space, is becoming more widespread. For example, a clothing and home goods store appeared in anti-cafe Ziferblat in Moscow; while a threestoried centre, Biblioteka food in big City, which presents several dining options, conference room, children’s club, a bookstore, interior shop and a flower shop opened in Saint Petersburg.

Commercial terms

In the first half of 2013, the vacancy rate in functioning shopping centres of Moscow were still at a low level of 3% against the background of retailers active expansion. Space in the shopping centres of highest quality was completely leased out. In those rare cases when a tenant leaves a successful object, the exposition period for the vacated premises usually lasts no longer than a month.

The lease contracts with fixed rate scheme for calculating the lease payments based on the retailers’ turnover prevail on the market (over 70%). Here tenants set the upper limit of the combined lease rate to insure against the risk of possible overpayment in the case of high turnover.

It is also worth to notice that large national and international companies include various benefits in their lease contracts such as discounted rates depending on the level of vacancy rate of the shopping centre upon its opening in order to reduce the lease payments. This is done because

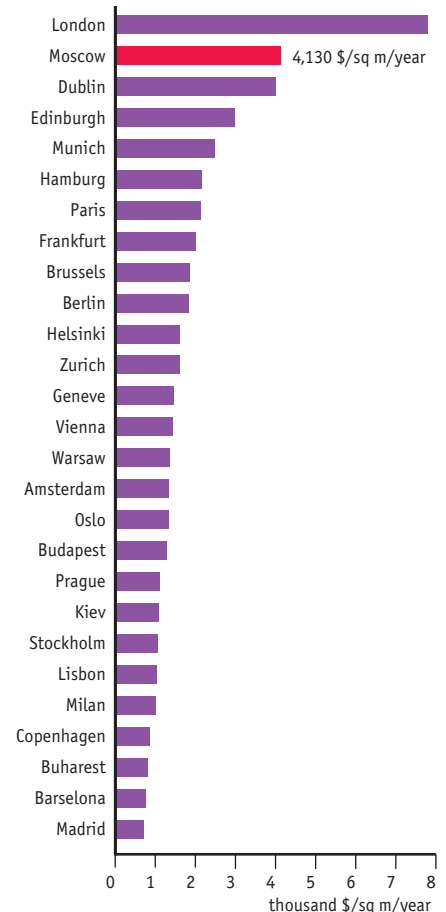


Sultanna Frantsuzova store
11 Usacheva St

the presence of vacant premises negatively affects attractiveness of a shopping centre and is indirectly responsible for its low attendance.

A contractual lease period between the shopping centre owner and the tenant, as a rule, lasts no longer than 3 to 5 years. Agreements with anchor tenants are usually arranged for longer periods (10 - 15 years).

Rental rates in the most successful European shopping centres, \$ per sq m per annum



Source: Knight Frank Research, 2013

Rental rates in modern shopping centres in Moscow, Q1 2013

Profile	Fixed rental rate*, \$ per sq m per annum	The share paid based on turnover, %
Hypermarket (> 7,000 sq m)	100 - 250	2 - 4
Urban hypermarket (3,000 - 7,000 sq m)	150 - 350	2 - 4
Supermarket (1,500 - 3,000 sq m)	250 - 500	4 - 6
DIY (> 5,000 sq m)	200 - 350	2 - 6
Home appliances(1,500 - 3,000 sq m)	250 - 500	4 - 5
Sporting goods (1,500 - 2,500 sq m)	400 - 1,200	4 - 5
Goods for children (1,000 - 2,500 sq m)	250 - 450	9 - 12
Apparels (50 - 300 sq m)	800 - 2,500	12 - 16
Footwear (50 - 300 sq m)	900 - 3,000	12 - 16
Accessories (10 - 70 sq m)	2,500 - 4,500	11 - 14
Movie theatres	150 - 350	3 - 5
Entertainment centres (100 - 1,500 sq m)	250 - 500	8 - 12
Entertainment centres (2,000 - 5,000 sq m)	100 - 220	4 - 7

* Excluding operating expenses and VAT (18%)

Source: Knight Frank Research, 2013

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Shopping centres scheduled for opening in H2 2013

Project	Address	Total area (sq m)	GLA (sq m)
Goodzone	Bld 12 Kashirskoe Hwy	122,065	65,500
Reutov Park	Reutov, Nosovikhinskoe Hwy, 2.5 km from MKAD	90,000	41,000
Raikin Plaza	8 Sheremet'evskaya St	75,000	35,000
Moskvorech'e	52 Kashirskoe Hwy	29,750	16,650
Brateevo Mall	Bld 2, 26 Borisovskie prudy St	26,000	15,000
Konfetti	16 Nagatinskaya St	25,000	17,600
Izmailovsky	42 Pervomayskaya St	16,774	8,372
MZ	Bld 36 Mikluho-Maklaya St	15,700	13,000
Alfavit	Intersection of Kulikovskaya St and Znamenskie Sadki St	14,000	12,000
Perovo-Centre	61A Perovskaya St	13,500	5,500
Akvarel Yuzhnaya	Bld 1, 9 Kirovogradskaya St	10,500	7,000

Source: Knight Frank Research, 2013

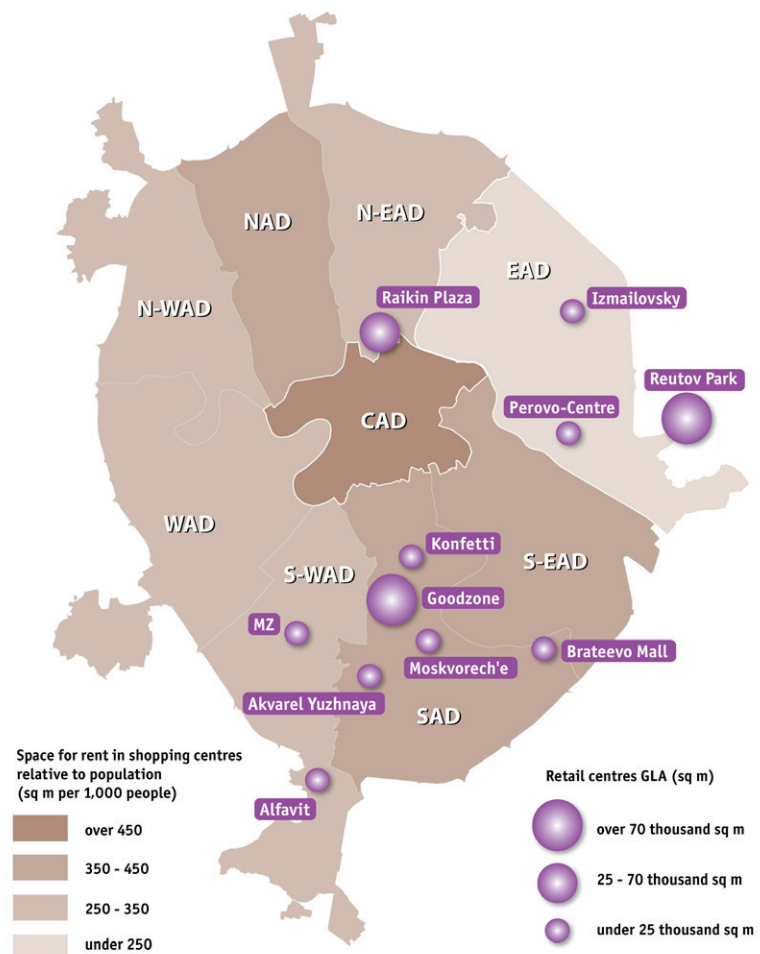
During the H1 2013, commercial conditions remained stable. Presently, the average rental rate in high-quality shopping centres of the city amounts to \$4,130 per sq m per annum, allowing Moscow to hold the 2nd place among European cities.

Forecast

In the first months of 2013, same as for the preceding year, construction of shopping centres previously suspended during the period of stagnation in Moscow was resumed. This tendency is characteristic not only of Moscow, but also of the regional retail real estate markets.

Eleven shopping centres with a total area of 443 thousand sq m (GLA – 237 thousand sq m) are scheduled to open in Moscow by the end of the year. Meanwhile, as of June 2013, over 40 retail objects (total area approximately 3 mln sq m) were in various stages of construction and finishing works. Leasable area of at least eight of them exceeds 50 thousand sq m, while the rest are predominantly of a district format size. Thus, we can say that we are witnessing a polarization of retail market of the capital. Among the shopping centres announced for commissioning, medium-sized objects are practically absent. At the same time, the development of small-format shopping centres in a situation of convenience shops deficit is quite natural. It is worth emphasizing that the city authorities are also paying attention to this issue.

Major shopping centres planned for commissioning in H2 2013. Retail space per 1,000 inhab. by districts, H1 2013



Source: Knight Frank Research, 2013

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
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