



Q3 2013

RETAIL MARKET REPORT

Moscow

HIGHLIGHTS

- In Q3 2013, the total supply stock grew by 114 thousand sq m (GLA 61.5 thousand sq m) due to the simultaneous market delivery of four properties, the largest of which was SC Raikin Plaza (GLA 35 thousand sq m).
- The rate of Russian market penetration by international retailers remains high: since the beginning of the year, 13 new brands appeared in Moscow.
- Commercial lease terms for premises in shopping centres in general are changing towards a reduction in the base lease rate and an increase in the share paid based on tenants' turnover.

RETAIL MARKET REPORT



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"At the current stage of market development, it is no secret that a thoroughly planned concept of a shopping center is the key to its successful operation. However, under present circumstances this is already insufficient: a growth of capitalization and the maximal extension of shopping centre's lifecycle come to the fore. The developer's professionalism is therefore determined by their ability to predict the market situation so as to create malls that will retain attractiveness to customers and investors even in 10 years".

Key indicators. Shopping centres*	Dynamics	
Total shopping centre stock (total area/GLA)**, million sq m	7.14 / 3.8	▲
Opened in Q3 2013 (total area/GLA), thousand sq m	114 / 61.5	
Scheduled to open in Q4 2013 (total area/GLA), thousand sq m	412 / 234	
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	317	▲
* 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		

Key events

Developers continue to announce new shopping centre projects in the Moscow Region:

- KVS Group plans to build an SEC Nebo in Solntsevo by the end of 2015. The total area of the project will amount to 62 thousand sq m.
- SEC Udachi with the total area of 123 thousand sq m will appear in Naro-Fominsk district.
- Praktika Development Company has announced plans to build a shopping and entertainment centre with a total area of about 100 thousand sq m in the vicinity of the future metro station Salaryevo on the New Moscow district.

Investment activity on the market remains high:

- American fund Hines purchased 50% of SEC Metropolis.
- SEC Abramtsevo located at the 102nd km of MKAD and the unfinished SEC River Mall at the Third Ring Road in Avtozavodskaya Street are put on sale.
- Information about the upcoming deal to sell Sed'moy Kontinent Company became known.

The Moscow authorities continue investment contracts revising:

- A project to build retail and office centre (total area of 175 thousand sq m) on the second Silikatnaya Street was canceled.
- An investment contract to build a pedestrian zone Alleya Romanov, located between Mokhovaya Street and Romanov Lane was unilaterally terminated.

Supply

In Q3 2013, the total supply stock grew by 114 thousand sq m (GLA 61.5 thousand sq m) due to the simultaneous market delivery of four facilities, the largest of which being SC Raikin Plaza (GLA 35 thousand sq m). Thus, the total supply stock of space in modern shopping centers has grown by 1.5% reaching the 7.14 million sq m figure.

It is worth noting that the market trend of opening district and local shopping facilities is still in place. For instance, in the current quarter, three small shopping centers were opened at a time: SEC Galereya Atlantis, SC Krug and the renovated SC Praga.

Renewal of delivery for previously suspended shopping center projects becomes all the more frequent. Typically, this process is preceded by a change in the property ownership. For example, in Q3, Krona-Market Company received permission to build an SEC Abramtsevo, placing it on sale at the same time (Renaissance Development Company is the potential buyer). Furthermore, in the short run one can expect the construction of the SEC River Mall to be resumed due to its purchase by the Praktika Development Company. Despite the fact that the company was only recently formed, it cannot be considered a newcomer on the market: most of its employees have extensive experience in real estate development. The company plans include building a shopping and entertainment center in the immediate vicinity of the upcoming metro station Salaryevo located in the New Moscow district.

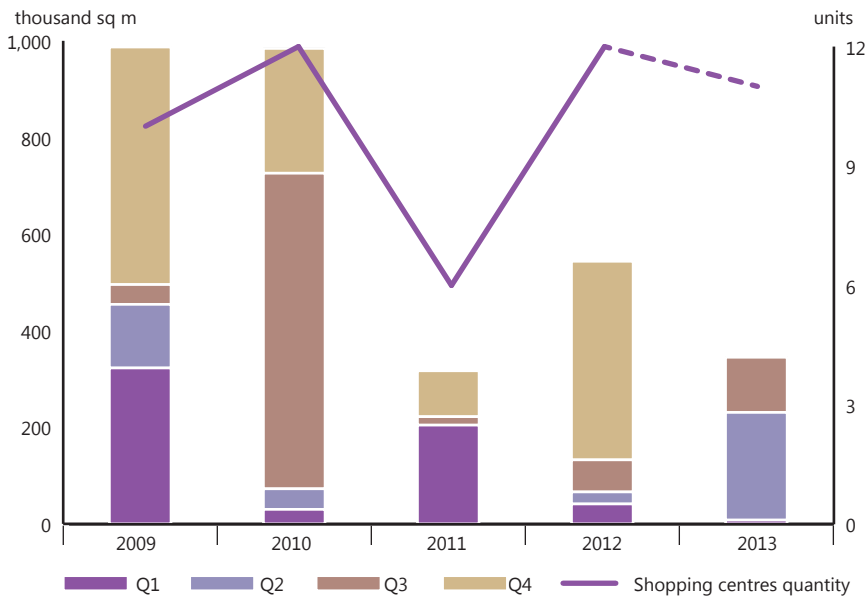
Demand

The current quarter was characterized by high activity of international retailers. The first American public catering chains Quiznos and Krispy Kreme opened in Moscow. The stores of a French jewelry chain APM Monaco



SC Raikin Plaza
1 bld, 6 Sheremet'evskaya St

Retail space growth in 2009–2013



Source: Knight Frank Research, 2013

(in Russia, the Baltic States and Kazakhstan it is being developed in partnership with Adamas) opened in two Moscow shopping centers of Tashir Group of Companies. The opening of a flagship store of an Italian shoe manufacturer Ash took place in SEC Afimall. Moreover, in Moscow, the first Russian store of a British chain WHSmith (books, newspapers, travel goods) opened in Paveletskiy railway station. Tsvetnoy Bazar Media Company, which is a part of the PNN Group Holding, will deal with WHSmith development.

The Russian market is still of interest to trade operators working in the middle+ segment: the opening of a mono-brand boutique Sherri Hill occurred in July, while in August, an accessories store of an Italian brand Serapian opened in a shopping gallery Modniy Sezon. Furthermore, a Spanish chain of goods for children Pili Carrera (SEC Afimall) opened in September.

Chain operators continue their active regional expansion: ELC opened its first store in St. Petersburg, the Lego operator emerged in Irkutsk and Togliatti, while in Novosibirsk it was a mono-brand chain Panasonic. Federal operator Gloria Jeans entered the city markets of Yugra and Eletz, as the first Mango store opened in Ulan-Ude. Czech-Italian footwear brand Bata made another attempt to enter the Russian market: the chain's stores were opened in such cities as Moscow, Krasnodar and Sochi.

Retailers continue to experiment with new formats. Azbuka Vkusa is of a particular note in this regard with its plans to create a chain of general budget supermarkets and a small shops chain Fresh Market selling fresh fruit and vegetables. A company developing a network of family entertainment centers Cosmic, decided to establish a chain of movie theaters under the same brand.

Shopping centres commissioned in Q3 2013

Project	Address	Total area, sq m	GLA, sq m
Raikin Plaza	1 bld, 6 Sheremet'evskaya St	80,000	35,000
Praga	3 Rossoshanskiy passage	14,000	10,500
Krug	9 Dmitriya Donskogo blvd	10,000	8,000
Galereya Atlantis	106 Varshavskoe Hwy	10,228	8,000

Source: Knight Frank Research, 2013

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Moscow



MUC Kuntsevo-plaza
9 Yartsevskaya St

Commercial terms

A gradual change towards the base lease rates reduction against the background of growth in the share paid on tenants' turnover are among the latest trends in commercial lease terms for premises in shopping centers of Moscow. Many major fashion operators and company groups (for example JamilCo and Djinsovaya Simfoniya) enter into lease agreements based on the aforementioned scheme all the more often. This trend's benefit results from the fact that in this case both the tenant and the developer are equally interested in the success of the retail facility. However, one should take into account that active development strategy of retail chains may lead to increased competition between the stores of the same retail chain, ultimately resulting in reduced rate of turnover per operator per meter of leasable area. Obviously, in current situation, the lease income of the owner will depend on the competency of concept development on the part of the retail chain companies.

Over the past three quarters of 2013, the share of vacant space in the operating shopping centers of Moscow was still at a low level of around 3%.

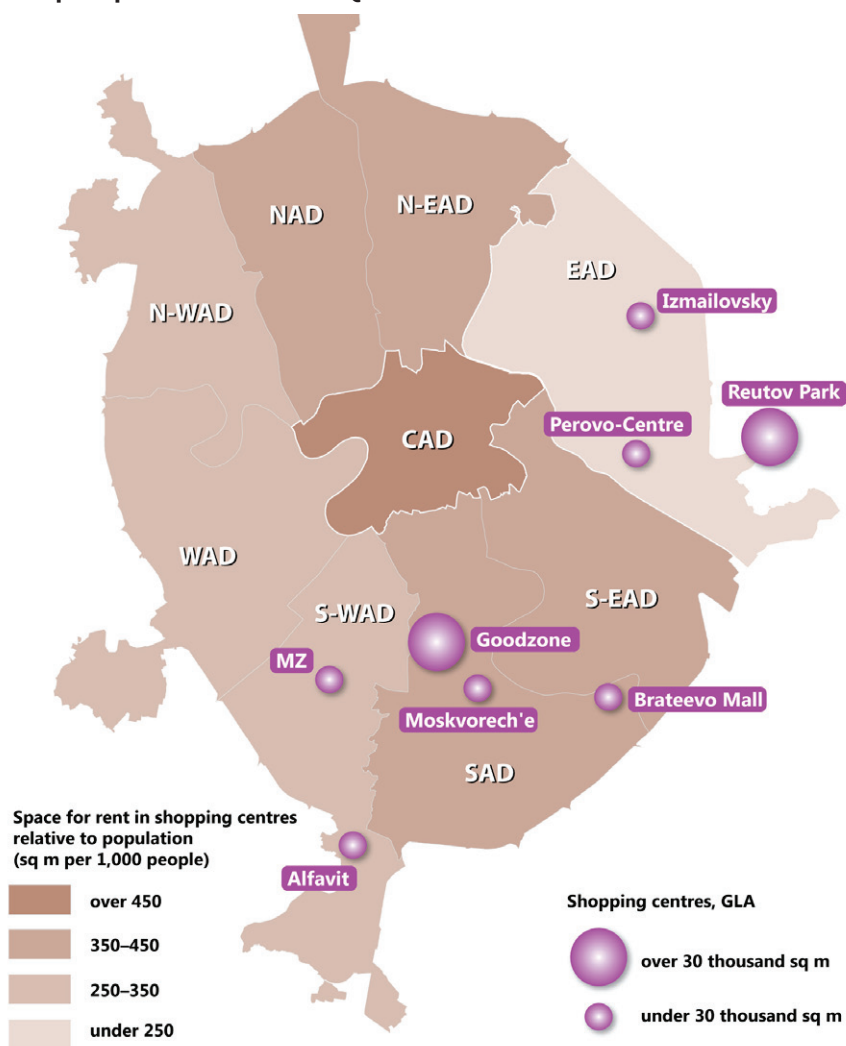
Rental rates in Moscow shopping centres, Q3 2013

Profile and area, sq m	Fixed rental rate*, \$ per sq m per annum	The share paid based on turnover, %	Lease agreement duration, years
Hypermarket (>7,000)	100–250	2–4	15–25
Urban hypermarket (3,000–7,000)	150–350	2–4	7–15
Supermarket (1,500–3,000)	250–500	4–6	7–10
DIY (>5,000)	170–350	4–6	15–25
Home appliances(1,500–3,000)	250–500	4–5	7–10
Sporting goods (1,500–2,500)	400–1,200	4–5	7–10
Goods for children (1,000–2,500)	250–450	9–12	5–10
Apparels (50–300)	800–2,500	12–16	5–7
Footwear (50–300)	900–3,000	12–16	5–7
Accessories (10–70)	2,500–4,500	11–14	3–5
Movie theatres	150–250	3–5	10–15
Entertainment centres (100–1,500)	250–500	8–12	5–7
Entertainment centres (2,000–5,000)	100–200	4–7	10–15

* Excluding operating expenses and VAT (18%)

Source: Knight Frank Research, 2013

**Main shopping centres scheduled to open in Q4 2013.
Retail space per 1,000 residents, Q3 2013**



Источник: Knight Frank Research, 2013

Shopping centres scheduled for opening in Q4 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
Moskvorech'e	52 Kashirskoe Hwy	29,750	16,650
Brateevo Mall	Bld 2, 26 Borisovskie prudy St	26,000	15,000
Izmailovsky	42 Pervomayskaya St	16,774	8,372
MZ	Bld 36 Miklukho-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

Source: Knight Frank Research, 2013



MUC Kuntsevo-plaza
9 Yartsevskaya St

Forecast

Developers announced delivery of 13 shopping centers with a total area of about 470 thousand sq m (GLA of about 300 thousand sq m) in Moscow by the end of 2013. However, taking into account current stage of implementation of some of the facilities, we expect delivery of only a half of the declared facilities by the end of the year.

Due to the emerging highly competitive environment on the Moscow market (connected with a significant amount of retail facilities under construction), we expect an increase in the number of objects under redevelopment. This applies both to the objects of Soviet legacy (department stores (univermags), trade houses), and those built in the very early stages of development of the retail real estate market of the capital. One can observe redevelopment of some of them already at this time. For example, a chain of shopping centers Mega is renovating its first malls, while ENKA TC Company is carrying out a comprehensive renovation of the territory on which the first professional retail facility, SC Ramstore Capitoly was located.

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