



2011 RETAIL REAL ESTATE MARKET

Saint Petersburg
Knight Frank

EXECUTIVE SUMMARY

- Throughout 2011, an upward trend in development activity continued: announcements were made of both new projects and projects suspended during the crisis period.
- High level of demand was apparent throughout the year: as a consequence, by the end of Q4 the vacancy rate fell down to 4%.
- The previous year trend of take-up exceeding GLA commissioning amount continued into 2011.

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Nikolai Pashkov
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"In 2011 the retail property market enjoyed more favorable conditions than any other commercial real estate segment in the city, with a healthy growth on both demand and (potential) supply side. Landmark events in 2011 included the announcement of the proposed sale of Galeria shopping and entertainment complex – a transaction of an unprecedented scale for St. Petersburg (buyer: Morgan Stanley). This proves that despite the concerns and skepticism about real estate projects and assets in Russia, high quality properties may appeal to major international investors."

In 2011 commissioning and take-up amounts are comparable to 2010, which is an indication that the market is stable. Moreover, 2011 was a year of intense investment activity: several large sales transactions for shopping centre properties were closed. We note that last year both Russian and foreign retailers were very active in investing in their chains' development.

Main events

- One of the largest investment deals was closed in H1 2011: Macromir group of companies was purchased by Fort Group, which before the deal possessed the portfolio of three functioning shopping malls and one project – Kantemirovsky retail and entertainment centre, which was purchased from Europolis AG in 2010. As a result of the deal the following assets and liabilities of Macromir passed to Fort Group, in particular five functioning retail and entertainment centres and one project

Main indicators. Shopping centres		Change*
Total supply of professional shopping centres, total mln sq m	4.4	
including GLA, million sq m	3.04	
Commissioned in 2011, thousand sq m	366	
including GLA, thousand sq m	256	
Planned for commissioning in 2012, thousand sq m	309	
including GLA, thousand sq m	226	
Vacancy rate, %	4	
High-quality retail space per 1,000 population of St. Petersburg, sq m	634	

*as compared to 2010
Source: Knight Frank Research, 2012

under construction. Thus, the company became the second largest proprietor of retail real estate in Saint Petersburg after Adamant holding company.

- In Q3 an unusual investment deal was finalized involving a property located in the city's main shopping corridor: Kolizey cinema (100, Nesky Ave) with a total area of 2,616 sq m was sold in a record short time for such a unique property: the deal was closed in just six months from the date the property had been exposed for sale. Knight Frank St. Petersburg represented the building's owner (KARO Film cinema chain) and provided purchaser search and transaction support services.
- Late in 2011 it became known

that by the end of January, 2012 Morgan Stanley Real Estate Fund (MSREF) would close a deal to acquire one of the city's largest shopping and entertainment centres Galeria (30A, Ligovsky Ave). Estimates hold that the transaction price may be as high as \$1.1 billion, making it the largest deal in the commercial real estate market in St. Petersburg and Russia as a whole.

- In Q4 2011, Adamant holding announced that Kontinent na Bukharestskoy mixed-use complex would be built on top of the Bukharestskaya metro station; the 74.7 thousand sq m project (originally called Bukharestsky) was started back in 2007 and is planned for completion in Q4 2012. Altogether in 2011, Adamant holding, the largest proprietor of



high-quality retail space in St. Petersburg, announced the start of five projects totaling 372 thousand sq m, all of which are expected to be completed in 2012-2015.

Supply

In 2011, ten retail projects with the total area of 336 thousand sq m were commissioned, which is on a par with the 2010 figure. As a result, the supply of GLA increased by 9%.

As many as two large shopping centres were opened in Moskovsky district, which in 2011 became the Saint Petersburg market leader by GLA/1,000 people ratio with 1,700 sq m per 1,000 people (the second best performing district – Primorsky – has the ratio of slightly above 1,060 sq m per 1000 people).

70%* of retail development projects scheduled to enter the market in 2011 was completed as scheduled. Full-scale launch of some projects was put off to H1 2012, though anchor tenants of those are already working.

A strong upward trend in development activity continued throughout the year: announcements were made of both new projects and projects suspended during



Kosmos shopping centre, 27/39, Tipanova St.

the crisis. In the last year, 16 new large-scale retail properties were launched. It should also be noted that 10 projects out of those

suspended during the recession were restarted, and some of them were successfully commissioned and opened in 2011.

* by number of projects

Shopping centres opened in 2011

Project	Address	Total area, sq m	Developer
Leto	25/1, Pulkovskoye Hwy	114,000	HALS-Development
Kosmos	27/39, Marata St.	54,000	Stroykorporatsiya Elis
City Mall (3 phase)	17, Kolomyazhsky Ave	47,000	Fort Group
Prisma	503, 1 A , Vyborgskoye Hwy, Pargolovo	40,000	Adamant
Akadem Park	41B, Grazhdansky Ave	32,000	Fort Group
Ligov	153 A, Ligovsky Ave	27,860	Adamant

Source: Knight Frank Research, 2012

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Major lease deals in 2011

Tenant	Retail profile	Area, sq m	Shopping mall
O'Key	Grocery retailer	10,500	RIO
Prisma	Grocery retailer	8,500	Prisma
		7,500	Zhemchuzhnaya Plaza
Kronverk Cinema	Cinema	6,700	Piterland
Metrika	DIY	4,000	former Zelenaya Strana
H&M	Apparel and accessories	2,000	City Mall
Metrika	DIY	2,000	Raketa

Source: Knight Frank Research, 2012

Demand

Average vacancy rate that was falling since the beginning of the year hit its historical low of 3.5% in Q3. In Q3 this indicator grew up to 4% in response to a substantial increase in new supply. The decrease in vacancy rates during the first three quarters of the year was a result of both growing demand and gradual take-up of retail space in less successful retail properties that are around for a long time but were never in high demand before. In addition, new projects evenly entered the market, and some of them had high occupancy rates by the time of opening.



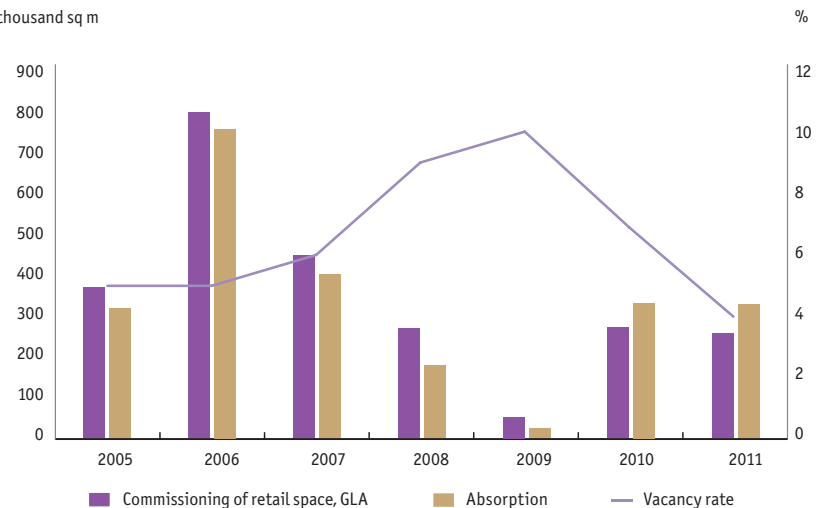
Annual take-up was 327 thousand sq m, which is on a par with the previous year (331 thousand sq m). Take-up of GLA in 2011 exceeded commissioning amount by 28%, which is 6 p.p. more than the same index of 2010.

Throughout the year, retail operators remained highly active in leasing retail space. Retail chains were the fastest growing

segment: in 2011, some of them not only rented space, but also managed to build and launch new facilities of their own (e.g. Magnit, O'Key, Kesko). In 2011, the most rapidly developing Russian and international retailers also included Lenta, S-Group (the Prisma brand), Prodovolstvennaya Birzha holding (the Lime brand), Metrika, M.Video, etc.

In 2011, take-up of GLA exceeded commissioning amount by 28%

thousand sq m



Source: Knight Frank Research, 2012



Zhemchuzhnaya Plaza mixed-use complex, Petergofskoye Hwy

Forecast

As long as favorable economic conditions in Russia and worldwide continue, we expect that the retail property market will show sustainable growth throughout 2012.

We expect high development activity to continue into 2012. While more projects

have been announced for the next year, new supply of rentable space will total approximately 226 thousand sq m, which is below the previous year's level. This is because the projects announced for the next year include no super-regional centres and only two regional centres.

So far 10 to 13 large-scale retail development projects were announced for completion

in 2012, including Piterland centre that will contain the Russia's largest water park and entertainment complex, and phase I of the Zhemchuzhnaya Plaza mixed-use complex, the largest in the southwest of the city. We expect however that later in the year more new development projects will be launched and completed before the year end. In this case total new supply will likely be on a par with the 2011 level.

Examples of shopping centres scheduled to open in 2012

Project	Address	GLA, sq m	Developer / Project participant
RIO*	Salova St. / Belgradskaya St.	64,000	Tashir Group
Zhemchuzhnaya Plaza (1phase)	Petergofskoye Ave	58,400	SRV Group, SHIIK
Piterland	72, Primorsky Ave	35,000	Stremberg
Kontinent na Bukharestskoy	Bukharestskaya St. / Salova St.	25,600	Adamant
U Krasnogo Mosta	73-79, Reki Moiki Emb.	14,200	BTK Development

* in 2011, only one anchor tenant opened for customers

Source: Knight Frank Research, 2012



OVERVIEW

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