

# RETAIL MARKET

## Olga Atkachis

Head of Retail Department at ASTERA an alliance member of BNP Paribas Real Estate



*'Due to a complicated external economic situation which affected rental rates, vacancy and demand, commercial property market was not expected to increase significantly in 2014 as we observed in Q1. In the reporting period companies with good well-articulated yearly development plans were the most active players on the commercial real estate market.'*

## MAJOR TRENDS

- External political and economic situation in Q1 has influenced market growth rate, decision-making and terms of lease agreements for some tenants/buyers.
- Long-term leasing agreements experienced changes regarding rental payments. By owner's will, the rates have started to be fixed in USD, euro or even currency basket. However, the currency corridor which sets the limits of fluctuations can be implemented in order to hedge clients against rental rates increases. Such unfavorable changes hardly meet expectations of tenants who agree to new terms highly reluctantly. Meanwhile, if it comes to most liquid premises tenants are forced to accept this situation.
- Large chain stores of different specialties continue improving their portfolios of rented premises based on their profitability, and prefer to cancel unfavorable lease agreements if there is no possibility to reconsider rental rates.
- A great number of tenants and buyers in St. Petersburg actively consider developing suburbs and city outskirts such as, Shushary, Kolpino, Parnas, etc. Moreover, they are interested in premises under construction as well as in already commissioned objects.
- In the reporting period the most active clients were public catering operators (restaurants, bistro, canteens, and, to a lesser extent, pubs), grocery stores (convenient stores, department stores, supermarkets), and banks (offices with 80-150 sq.m area and bank branches from 350 sq.m).
- Facilities with price up to 60 million rubles were in great demand. However, in Q1 demand for such premises was higher than supply. End consumers and investors acted as buyers.
- System of rent payment calculation based on per cent of stock turnover is gaining popularity.
- There was an increase in a number of street retail owners who pay commission to brokers understanding that this guarantee them terms reduction of project's implementation, wide choice of tenants, and, as a result, a quick profit.

TOTAL VOLUME



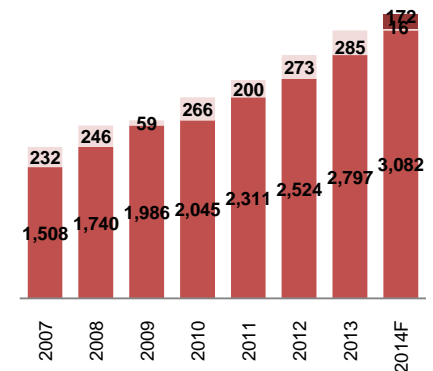
VACANCY



RENTAL RATES



## Overall shopping centers' GLA in St. Petersburg



■ St. Petersburg shopping centers overall GLA at the beginning of the year, 000 sq.m

■ New retail space commissioned during the related year, 000 sq.m

■ Forecast until the end of the year, 000 sq.m

Source: ASTERA an alliance member of BNP Paribas Real Estate

## KEY INDICATORS

Indicator	Q1 2013	Q1 2014
Overall GLA of shopping centers, thou. sq.m	2,874	3,098
Vacancy in operating shopping centers		
Super regional	0% <sup>1</sup>	1% <sup>1</sup>
Regional	0.5 - 1%	2.8%
Community	2 - 3%	3.2%
Neighborhood	3 - 4%	3.4%

<sup>1</sup> - wait list

Source: ASTERA an alliance of BNP Paribas Real Estate

## SUPPLY

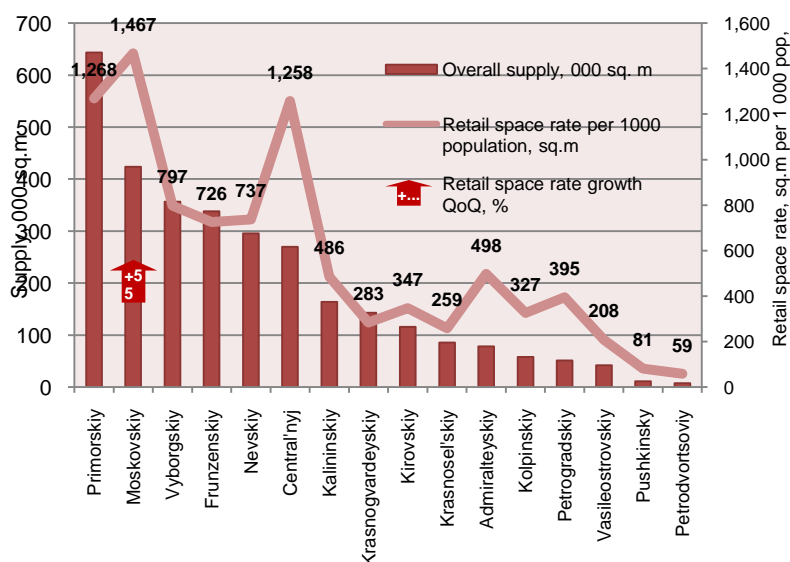
### Shopping centers delivered in Q1 2014

In Q1 2014 multifunctional shopping complex 'Torgovy Dvor' (building A) was delivered in Saint Petersburg with the overall GLA of 15,900 sq.m. As a result, the total stock of retail market amounted to 3,097.6 thou. sq.m.

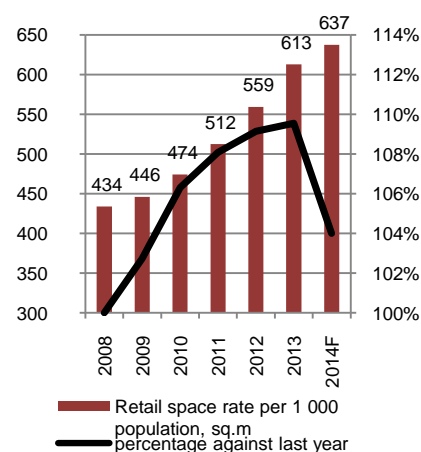
Thereat, delivery date of retail center 'Montpencier' announced to be commissioned in Q1 in Primorsky District has been shifted to Q2 2014.

Indicator of population provision with high-quality premises reached 604 sq.m per 1,000 residents by the end of Q1. The highest indicator values were observed in Primorsky, Moskovsky, and Vyborgsky districts of Saint Petersburg.

### Breakdown of present supply of shopping centers' area by districts of Saint Petersburg, Q1 2014



### Retail space rate per 1,000 population in St. Petersburg



Source: ASTERA an alliance member of BNP Paribas Real Estate

### Shopping Centers to be delivered by the end of 2014

By the end of 2014 about 172 thou. sq.m of retail premises are planned to be commissioned within 10 projects. Taking into account premises already delivered in the reporting period, the overall GLA of St. Petersburg retail market increased by 6.1% and totaled up to about 3,270 thou. sq.m. Level of population provision with space will reach the number of 637 sq.m per 1,000 residents.

Being one of the leaders among St. Petersburg districts by retail premises commissioned, 'Europolis' is the largest shopping center to be delivered in 2014 with the overall GLA of 60,000 sq.m.

The first shopping center in 'outlet' format, 'Fashion House Outlet', is also announced to be launched in 2014. It is situated in Krasnoselsky district and its overall GLA estimates at 20,260 sq.m.



SC 'Europolis'

**Shopping Centers to be delivered over Q2 – Q4 2014**

Name	GBA	GLA	District	Opening
Montpencier	58,500	30,500	Primorskiy	Q2 2014
Parnas	15,000	6,500	Vyborgskiy	Q2 2014
Fashion House Outlet	37,000	20,260	Krasnoselskiy	Q3 2014
Europolis	141,700	60,440	Vyborgskiy	Q4 2014
Raduga (new building)	43,350	30,000*	Moskovskiy	Q4 2014 – 1H 2015
U Krasnogo Mos-ta	14,000	11,200	Centralny	2014

\* Preliminary figures

Source: ASTERA an alliance member of BNP Paribas Real Estate

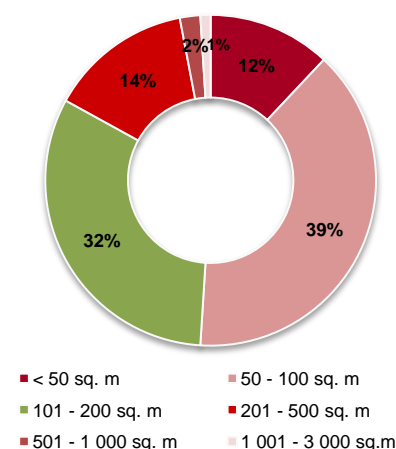
**DEMAND**

In Q1 2014 companies with well-articulated yearly development plans were the most active participants of St. Petersburg commercial real estate market. Undefined economic situation which occurred due to the changes in external political situation, fluctuation of currency rates, and decrease of retail market growth by 5.6% has led to general slowdown of consumer activity observed by retailers, restaurant-keepers, and auto dealers.

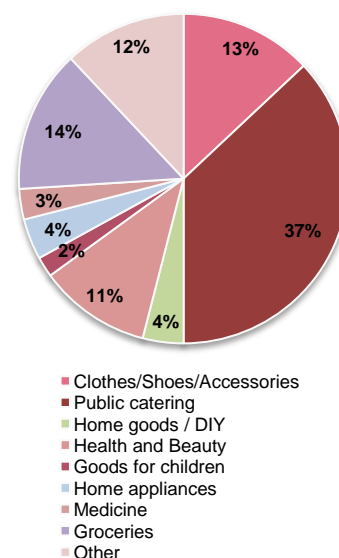
This situation also affected banking market where the level of mortgage credit increased against decrease in consumer credits and car loans. Such banks as 'Saint Petersburg', 'VTB 24', 'Alfa-Bank', and 'SberBank' observed this tendency.

Public catering operators and grocery stores were the most active ones in Q1. At the beginning of 2014 the following premises of public catering were launched:

- ✓ On Vyborgskoe shosse the first English gastro pub 'THE PUB' was opened combining two formats: European cuisine and bar selection of drinks and cocktails. ASTERA an alliance member of BNP Paribas Real Estate assisted in finding premises;
- ✓ 'Brimborium' Bar was delivered on Mayakovskaya Street. Here customers can find home liqueur and tarts on the menu, and RGB-wallpapers on the walls;
- ✓ On 51/9, Bolshoy Prospekt of Petrogradskaya Side restaurant 'Red. Steal and Wine' was opened;
- ✓ On 16, Marata Street restaurant 'MOZHNO' with 120 seats is ready to be commissioned. ASTERA an alliance member of BNP Paribas Real Estate acted as a consultant in terms of finding premises;
- ✓ In May the third restaurant of a popular fast-food project 'City Grill Express' will be opened in St. Petersburg. ASTERA an alliance member of BNP Paribas Real Estate acted as deal's broker and assisted in renting premises with the area of 140 sq.m on 4, Rubenshteina Street;
- ✓ 'Marugame' fast-food chain is planning to launch about 10 restaurants in St. Petersburg. The first restaurant with 90 seats was opened on 88, Nevsky prospect. The second facility is being built near Primorskaya metro station;
- ✓ 'Double B' Coffee House was opened on 60, Obvodnoy Kanal Emb.;
- ✓ 'Costa' Coffee House was commissioned in the building of the Visa Center of Finland on 5, Marata Street;
- ✓ 'Fazer' opens cafés and bakeries inside Prisma stores. The first two bakeries under Fazer Baker's Market brand were opened in Prisma supermarket located in SC 'Pearl Plaza' and 'Moscow';
- ✓ On Moskovsky prospect new baking and confectionary store 'Bushe' was opened.

**Requested area breakdown of built-in premises, Q1 2014**

Source: ASTERA an alliance member of BNP Paribas Real Estate

**Breakdown of tenants specialty in street retail, Q1 2014**

Source: ASTERA an alliance member of BNP Paribas Real Estate

Moreover, the largest holding 'Ginza Project' announced its development plans. The company will enter fast-food market with its own restaurant 'O-BUDFET'.

Increase in prices for imported goods can affect development plans of public catering chains as a whole. However, despite unstable economic situation in Q1, during January-March period in St. Petersburg and Leningrad Region the following projects were opened:

- In Leningrad region (Gatchina) on 12, Leningradskoe shosse the first hypermarket of 'O'Key' store chain was opened with the overall area of 9 thou. sq.m;
- 'Dimark' Company, a new player in hypermarket segment, develops super- and hypermarkets under 'Super Good' and 'Moy Mir' brands. It opened its first 'Moy Mir' hypermarket on North-West of the city in Pushkin City;
- 'Big Box' Company announced launching of wholesale and retail complexes. The first two objects will be situated in Pulkovskoe shosse and Shafirovsky prospect;
- In March Real Group opened its 27<sup>th</sup> store in Primorsky district of the city. ASTERA an alliance member of BNP Paribas Real Estate assisted in finding premises. Thereat, grocery supermarket chain 'Real – Fresh goods' is planning to start about 10 store in St. Petersburg by the end of the year. Also the company is to launch department stores in Leningrad Region.
- in Vsevolozhsk on 17, Geroev Street grocery supermarket of premium-class 'Azbuka Vkusa' was opened;
- 'KIR.24' grocery chain is planning its further development by occupying premises of 'Morkov' supermarket chain which will allow the company strengthening its presence on the market;
- in Sestroretsk a new grocery store 'Real' with total area of 460 sq.m was opened on Voskova Street;
- in 'Intertorg' Trading House on 29, Ispytateley Street the first store under Eurospar brand was opened;

Moreover, retail chain 'Semeyny Kapital' announced its further development. It is planning to open about 35 stores in St. Petersburg by the end of the year and thereby to double their amount in the city.

At the end of January 'Karusel' hypermarket (16, Pulkovskoe shosse) was closed. This location is famous for concentration of such hypermarkets as, 'O'Key', 'Lenta', 'Metro', 'Ashan', and SC 'Leto'. In future directory of X5 Retail Group intends to renovate hypermarket and lease it out.

There was also high demand observed from clothing operators:

- the first official store of 'Reima' brand was opened in December in 'MEGA Dybenko' shopping center. 'Reima' is a producer of wind- and waterproof children's clothes;
- new chain 'Violeta' was introduced to the market by Spanish retailer 'Mango'. It is designed for customers with the size starting from 46. In 2014 it is planned to open such a store in Saint Petersburg.

There were some new openings in luxury segment in St. Petersburg. One of them is first 'Armani Jeans' boutique, a fashionable retailer, which is located on the 1<sup>st</sup> floor of SC 'Galeria'. The store has two equal zones: men's and women's. A wide range of clothes, shoes, bags is well-represented for both buyer categories. Also, customers can purchase watches, glasses and other accessories of Emporio Armani brand in the store. Boutique is decorated in traditional style of Armani Jeans stores around the world: in white and blue tones.

In Q1 the first mono boutique 'Prada' was opened on 13, Bolshaya Konnu-shennaya. ASTERA assisted in selling premises with area of 260 sq.m. New

## NEW PROJECTS, 2014



Finnish 'Reima' brand, which produces wind- and waterproof clothing, entered Russian market. In the near future 'Reima' is planning to open several brand stores in Russia.



In St. Petersburg there was an opening of 'Prada' mono boutique on 13, Bolshaya Konnu-shennaya. ASTERA an alliance member of BNP Paribas Real Estate assisted in finding premises.



On the 1<sup>st</sup> floor of SC 'Galeria' the first 'Armani Jeans' boutique was opened.



boutique has black and white floor, and green fabric-covered walls with displays. This traditional style became Prada's calling card.

Home appliances and electronics retailers will continue to grow in Q1 2014:

- Inventive Retail Group opened a new Samsung store in Saint Petersburg;
- On Nevsky prospekt 'Vertu', a producer of luxury-telephones, purchased premises for its own individual purposes;
- By 2016 'Panasonic' is planning to create in Russia a chain of 30 mono brand stores. Each store will be located in the shopping centers and have the area of about 150 sq.m on the average. The range of goods will include 450 articles of Panasonic technologies in all categories;
- Two oldest players on Russian retail market in home appliances and electronics segment - 'Tehnosila' and 'Tehnoshok' – are considering the possibility to create joint venture company which will combine both chains. Parties' investments in integration process are not revealed.

Online-retailers strengthen their positions. Increase in online-sales is observed in 'Ulmart', 'Eldorado' and 'M.Video', which consider the possibility of opening Internet-hypermarket.

Trampoline park 'Jump Family' in REC 'Peterland' was an important opening in entertainment segment. About 1,000 sq.m space was leased out for a new park on the fourth floor of the shopping complex.

European microfinance organization 'Profireal Group' has entered Saint Petersburg banking market. By the end of the year the company is planning to open 15 outlets in street-retail format. 'Profireal Group' was established in 1994 by David Beran, Czech entrepreneur, who works in Czech Republic, Slovakia, Poland, and Bulgaria.

#### Examples of major transactions closed in Q1 2014

Brand	GLA, sq.m	Specialization	Address
Azbuka Vkusa*	1,834	Supermarket	Vsevolozhsk, Geroev ul., 17
Prisma	8,900	Hypermarket	SC 'Okhta Mall'
Media Markt	3,300	Home appliances and Electronics	SC 'Okhta Mall'
Decathlon	2,900	Sports goods	SC 'Okhta Mall'
Susanin Fitness (Sculptors)	1,500	Fitness	SC 'Okhta Mall'
Studio Karaoke, festival extreme-bar, Artek Night Club	1,500	Entertainment, public catering, Night Club	Chernyahovskogo ul., 75, lit. P
O'Key	9,000	Hypermarket	Leningradskoe sh., 12
'Jump Family' trampoline park	1,000	Entertainment, Child Center	SC 'Peterland'
Holiday Inn (Sozvezdie)	8,700	Hotel	Kremenchugskaya ul., 13
Eurospar	4,000	Supermarket	Ispytateley pr., 29
Olymp	2,100	Fitness	Cottage settlement 'Nebo'
Fitness Family	3,300	Fitness	Residential complex 'Knyaz Alexandr Nevsky'
Sculptors (SculptorsGroup)	4,600	Fitness	Residential complex 'Gusi-Lebedi'

\* With assistance of ASTERA an alliance member of BNP Paribas Real Estate

#### PERSPECTIVE PROJECTS

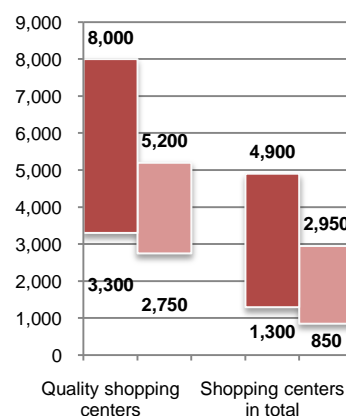
Federal Pharmacy Chain 'Raduga' and Multi-Regional Pharmacy Chain 'Pervaya Pomosch' announced their cooperation. They will join their efforts in purchasing goods, marketing, logistics, and also development of long-term relations with pharmaceutical manufacturers. According to companies' data, integration process will be complete by the end of 2014. More than 760 pharmacies throughout Russia will join the union.

One of the largest Russian producers of jewelry, 'Adamas', will open in St. Petersburg 10 stores of new franchised retail chain 'APM Monaco'.



Urban Council of Saint Petersburg agreed on construction of a 100-meter complex near Ladozhskaya metro station. 'Adamant', shareholding structure, is working on this project. Now on the place of a future skyscraper there is a shopping complex which belongs to 'Adamant' and is planned to be wrecked. Estimated investments into the project is \$100 million.

#### Average asking rates in shopping centers of St. Petersburg, Q1 2014, RUB/sq.m/month, incl. VAT



■ Shopping gallery on the first floor

■ Shopping gallery on the second floor and higher

Source: ASTERA an alliance member of BNP Paribas Real Estate

## VACANCY AND RENTAL RATES

### Shopping Centers

By the end of Q1 2014 average rental rates on St. Petersburg retail market amounted to about 3%. Despite a great number of retail space commissioned over 2013, vacancy rate in more liquid shopping centers has not exceeded 1%. In such retail centers rotation was possible only due to the substitution of some tenants by managing company for stronger brands.

Modified rent payment calculations became one of the new essential conditions from objects' owners. Now, rental rate is measured in currency – dollars, euros, or peg to bi-currency basket. Thereat, a currency corridor is often established in order to limit the fluctuations of exchange market, and partially insure clients against significant changes of rental rates. Tenants agree to these terms involuntarily, because it is owners' strong requirement concerning the most liquid premises.

### Street retail

During Q1 2014 supply and demand on built-in premises market remained at a high level. As of today, clients study attentively object's liquidity which depends on location, price, and finishing stage. Exposure period of liquid properties does not usually exceed 3 months. In the main shopping corridors (Nevsky pr., Moskovsky pr., Bolshoy prospect of P.S., Sredny prospect of V.I., 6<sup>th</sup> and 7<sup>th</sup> lines of V.O.) number of rent offers remains also at a high level due to the termination of lease agreements, raise of rental rates by premises' owners and optimization of portfolio of rented premises by tenants.

### *The range of rental rates on main shopping corridors of Saint Petersburg in Q1 2014*

Shopping corridor	Rental rate, thou.rub../sq.m/ month	
	Q1 2013	Q1 2014
<b>Nevsky pr. (from M. Morskaya up to Vosstaniya)</b>	6.5 – 10	7 – 12.5
<b>Near 'Moskovskaya' subway station</b>	3.5 - 8	4.5 - 8
<b>Near 'Ploschad Vostaniya'</b>	4 – 8.5	5.5 – 7.5
<b>Near 'Vasileostrovskaya'</b>	2.5 – 5.0	3 – 6
<b>Ligovsky pr.</b>	3.5 – 4.8	1.2 – 4
<b>Near 'Bolshevikov pr.'</b>	2.5 - 4	2.5 - 4

*Including VAT and utilities*

*Source: ASTERA an alliance member of BNP Paribas Real Estate*

# ABOUT ASTERA

**ASTERA an alliance member of BNP Paribas Real Estate** is an international consulting company, providing professional consulting services in commercial and elite residential real estate. The Company has been actively working on Russian real estate market since 1992. The Company's offices are located in Moscow, St. Petersburg and Kiev.

**According to Annual First Brokers' Rating, ASTERA was recognized as the best brokerage company of Saint Petersburg in terms of commercial real estate volume realized in 2013.**

ASTERA is the partner of **BNP Paribas Real Estate** in Russia and Ukraine. BNP Paribas Real estate is a leading international real estate company and the largest company by gross turnover among European consulting companies by year 2012, according to annual rating of authoritative publication "Source Euromoney".

An alliance with BNP Paribas Real Estate gives ASTERA the opportunity to represent the interests of their clients abroad and to attract foreign investments into Russian development projects.

ASTERA portfolio comprises retail, office, industrial, warehouse and hotel projects, including large multi-functional complexes and commercial premises of street retail format, detached buildings, 'built-to-suit' projects and land plots.

ASTERA portfolio includes over **500 implemented projects** of strategic and investment consulting and the exclusive data base consisting of **30,000 objects** in all segments of commercial real estate. Since 1992 ASTERA consultants have leased and sold **more than 6,000,000 sq.m.** of commercial premises and concluded over **9,000 transactions** on commercial real estate market in Russia and Ukraine.

ASTERA has assisted over **4,000 clients**, including major international and Russian financial, investment, trading and industrial corporations and networks.

*ASTERA provides a full range of services for investors, developers, owners, tenants and buyers of commercial and elite residential real estate:*

- Consulting services
- Investment consulting
- Real estate valuation
- Brokerage services
- Pre-brokerage
- Representing the client's interests
- Property management
- Legal services
- Real estate projects promotion

*A reputation of ASTERA is confirmed by being a member of the leading Russian and international professional organizations:*

- Guild of Managers and Developers (GUD)
- Russian Shopping Malls Council
- Russian Realtors Guild
- Russian-British Chamber of Commerce
- European Business Association

## Moscow Office

Tel.: +7(495) 925-00-05

Fax: +7(495) 981-05-65

## St. Petersburg Office

Tel.: +7(812) 703-00-03

Fax: +7(812) 703-00-04

## Kiev Office

Tel.: +380(444) 501-5010

Fax: +380(444) 501-5011

[www.asteragroup.ru](http://www.asteragroup.ru)  
[marketingspb@asteragroup.com](mailto:marketingspb@asteragroup.com)