

RETAIL MARKET

Olga Atkachis

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



"Despite the fact that growth rates of consumer activism has been slowing down since the beginning of the year, yet the retail market players remain optimistic about the development of their businesses".

SUMMARY

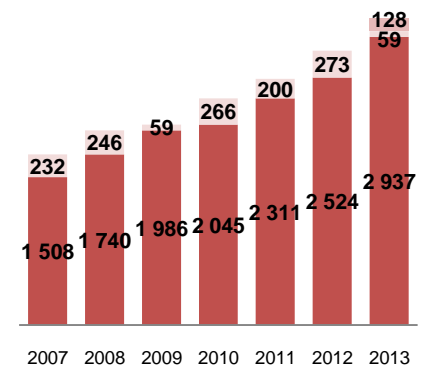
- In Q3 2013 two shopping centers ("Baltic Pearl" and "Velikan Park") were delivered to the market, resulting in increasing of the total stock by 59,000 sq.m (+2%) of gross leasable area (GLA). As of the end of the reporting period the total stock measured 2,996 thou. sq.m.
- Five shopping centers with the overall GLA of 128,4 thou. sq.m are expected to be opened in the next quarter. In case of full delivery, the St. Petersburg retail market will mark the peak annual volume of shopping area delivered since 2007 – 327,4 thou. sq.m (+11.7%).
- As of the end of the third quarter vacancy rate in St. Petersburg shopping centers amounted to 3.1% which was below the level of the previous quarter.
- By the end of September, 2013 the weighted average for asking rents measured 4,060 RUB in regional and super regional shopping centers, 2,040 RUB in community shopping centers, 1,420 RUB in neighborhood shopping centers per square meter per month (VAT excluded).
- Mall developers have turned to entertainment zones, which have become in great demand for family customers.
- During the reporting period rental rates of street retail premises did not substantially change since the first half of 2013. However, there appeared a growth of rental rates in some shopping corridors sparked by a high level of demand from customers for premises becoming available due to both the expiry of lease agreements and tenants' rotation.
- Long-term leasing agreements predominated on the market in the third quarter of 2013, their share in total volume of signed leasing agreements amounted to around 80%.

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	Q2 2013	Q3 2013
Overall GLA of shopping centers, thou. sq.m	2,937	2,996
Vacancy in operating shopping centers		
Super regional	1.2% ¹	1.8% ¹
Regional	4.5%	2.7%
Community	3%	3.4%
Neighborhood	2%	2.8%

¹ – wait list

Source: ASTERA an alliance member
of BNP Paribas Real Estate

SUPPLY

Two shopping centers ("Baltic Pearl" and "Velikan Park") were put into operation during the third quarter of 2013. As a result of new deliveries, the total stock of shopping centers' area increased by 59 thou. sq.m (+2%) and measured 2,996 thou. sq.m.

Shopping centers delivered in Q3 2013

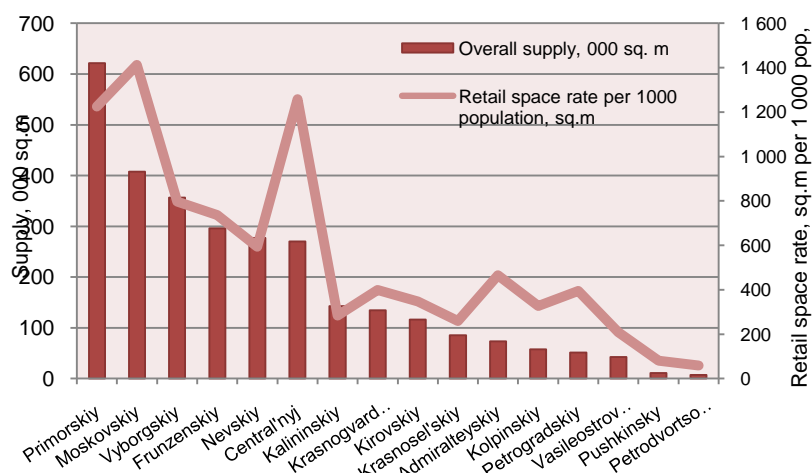
Name	GBA, sq.m	GLA, sq.m	District	Developer
Baltic Pearl, (1st phase)	94,000	48,000	Krasnosel'skiy	"SRV Group" / "SIIC"
Velikan Park*	14,500	11,000	Petrogradskiy	"Intercom"
TOTAL		59,000		

* Opening is set for the middle of November, 2013

Source: ASTERA an alliance member of BNP Paribas Real Estate

Five shopping centers with the total GLA of 128,400 sq.m are scheduled for commissioning in Q4 2013. In case of full delivery, the St. Petersburg retail market will mark the peak annual volume of shopping area delivered since 2007 – 327,400 sq.m (+11.7%).

Breakdown of present supply of shopping centers' area by districts, September 2013



It has become a commonplace that mall projects in the pipeline are to put off for next quarters. The reporting period proved no exception. For example, SC "London Mall" (the former SC "Felicita") was delayed for Q4 2013. In this project there has been a renewal of internal logistics and conducted the rotation of tenants in the shopping center.

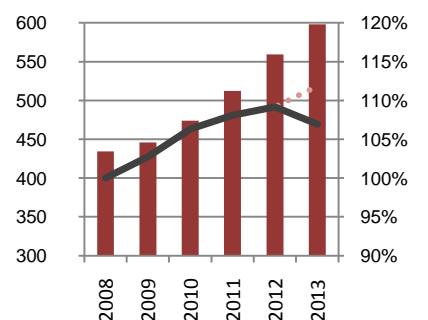
In total, there are 25 regional and super regional shopping malls in St. Petersburg that have been operating more than 5 years. In the opinion of ASTERA consultants, the standard lifespan of shopping centers' concept is 5-7 years. For this reason, a number of projects for malls' reconception will be growing as new concepts can revive customers' interest that eventually will lead to increasing profit margins.

The SC "Smile" is currently under reconception where some spaces being enlarged in the shopping gallery, new anchors being drawn, children area including a creativity center being created.



SC "Baltic Pearl"

Retail space rate per 1 000 population in St. Petersburg



Legend:
 ■ Retail space rate per 1 000 population, sq.m
 percentage against last year (forecast for the end of the year)

Source: ASTERA an alliance member of BNP Paribas Real Estate



MFC "Kontinent na Zvezdnoi"



SC "Admiral"

Shopping centers to be delivered in Q4 2013

Name	GBA, sq.m	GLA, sq.m	District	Type
London Mall	83,000	61,300	Nevsky	Regional
Five Lakes	32,970	21,660	Primorsky	Community
Zanevsky Kaskad- 3 (1-3 floors to be opened)	62,000	24,440	Krasnogvardeysky	Regional
Torgovy Dvor	20,940	15,900	Moskovsky	Community
Admiral	10,000	5,100	Admiralteyskiy	Neighborhood
Total		128,400		

Source: ASTERA an alliance member of BNP Paribas Real Estate

One of the significant projects of the year of 2014 is "FASHION HOUSE Outlet Centre St. Petersburg", the first outlet project in St. Petersburg, which takes place on 12 ha land plot in Lomonosovskiy District.

DEMAND

The dynamic of macroeconomic indicators demonstrates that the retail market has been experiencing a slowdown in terms of decreasing of the consumption rates since the beginning of the year in Russia and particularly in St. Petersburg. In addition, strong fluctuations of Russian currency to USD and Euro with a tendency to weakening unconditionally are adverse factors characterizing the general situation in the Russian economy. However, the St. Petersburg retail market is still in the equilibrium state – the supply goes up, so does the demand.

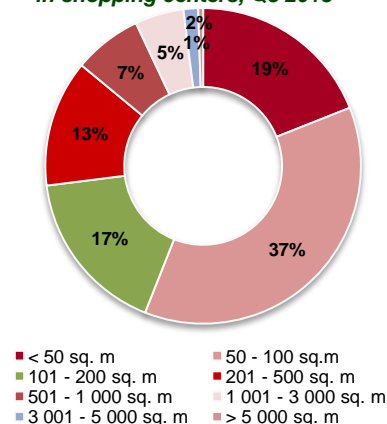
In the reporting period the demand from chain operators marked at the same high level as it did in the previous period. Public catering companies remained indisputable leaders demanding street retail premises. The supply was mostly also driven by groceries chains (supermarkets and "near home" shops), apparel and shoes, home goods, cosmetics and perfumery, drugstores and banks which considered street retail premises along with that of shopping centers.

The latest shopping centers had high occupancy rates even before their opening, by and large, due to chain stores of federal and international level. For instance, the occupancy rates in shopping centers such as "London Mall" and "Baltic Pearl" measured no less than 90% before commissioning.

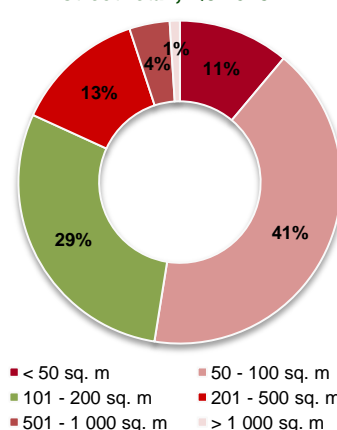
The SC "Balkania Nova-2" officially opened its shopping gallery in the third quarter of 2013, which hosted such brands as "New Yorker", "Bershka", "Reserved", etc.

Mall developers have turned to entertainment zones, which have become in great demand for family customers.

- The "Boulevard of childhood" ("Bul'var detstva") started operations in SC "Miller Center" that consisted of several edutainment operators ("Duby Kolduny", "Cheshire Cat") from one side and children's retailers ("1000 i odna Tufel'ka", "Alphea", etc.) from another.
- A brand new entertainment operator "Maza Park" opened in SC "Continent on Bukharevskaya" in the reporting quarter. The next standing-alone "Maza Park" is yet to be opened on Ho-Shi-Minh Street in Q4 2013. The territory of "Maza Park" of 14-15 thous. sq.m comprises a 5D-cinema, bowling, billiard, laser fighting "Q-Zar" (700 sq.m), rollerdrom (1 000 sq.m), night clubs, café and other entertainments.
- The playzone of SC "Balkania Nova-2" hosted "Gornostay" (alpine skiing) and "Q-Zar" during this quarter.

Requested area breakdown in shopping centers, Q3 2013

Source: ASTERA an alliance member of BNP Paribas Real Estate

Requested area breakdown in street retail, Q3 2013

Source: ASTERA an alliance member of BNP Paribas Real Estate

NEW PROJECTS

- At the end of August Inditex Group launched an online store "Zara" in Russia. Purchases can be delivered to the nearest store, or through delivery service.
- An international clothing operator «Mango» has great plans for Russia: in 2013, the retailer is going to open a record number of stores. In addition, the products line will be extended to some goods for children, teenagers and older women resulting in increasing of store's average area.
- American chain "Forever 21" will start its development from Moscow. The first store is to be opened in the capital in the first half of 2014 with total area of 1,500 sq.m.
- Panasonic Company is going to launch a single-brand stores chain. Opening date of the stores in St. Petersburg is not announced yet.

Some shopping property management firms hold different training programs targeted on children audience. For example, several master-classes on school thematic were organized in SC "Electra" on a free basis. Unconditionally, such events have potential to attract more families to shopping centers.

A children's store chain "Lukomorye" opens a new store (620 sq.m) in MFC "Velikan Park" in the next quarter.

This quarter became fruitful for super- and hypermarkets segments as well.

- The group of companies "Kesko" opened its third hypermarket "K-Ruoka" (>5 thous. sq.m). The company plans starting a supermarket on per. Urhova with an area of 1 thous. sq.m.
- "Azbukha vkusa" opened on Liteyniy prospect, 26. By the end of the year, the retailer will open up to 4 stores.
- "Auchan" opened in SC "Raduga" in place of hypermarket "Real,-", the latter was acquired by "Metro Group".
- In addition, "Intertorg" company acquired the retail chain "Repka" comprising six local shops with the average area of 350 sq.m.

Fastfood remained one of the most dynamic retail segment in St. Petersburg. Over the reporting period some new projects started their operations:

- The first restaurant under brand name "Russo Burger" (70 sq.m) was opened in SC "Vladimirskiy Passage". Following the opening of five more restaurants by the end of the year, the company plans to start a regional expansion.
- The international fastfood chain of premium class "Quiznos", one of the closest competitors to "Subway", entered the Russian market by opening two restaurants in St. Petersburg. The operator considers its development in street retail (premises up to 150 sq.m in good locations), popular shopping centers (food court zone) and business districts.
- "Ginza Project" started two new restaurants "Pryaniki & radosti" and "Koryushka".

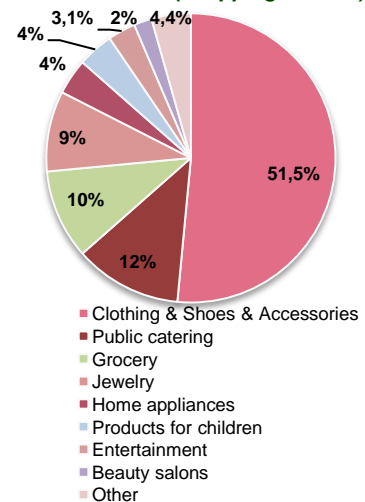
A strong competition in Appliances and Electronics chain operators leads to differentiation of new formats.

- "MediaMarkt" is going to develop stores within walking distance from residential areas. Such format will include a smaller area of about 2,000 - 2,500 sq.m instead of traditional 4,000 - 5,000 sq.m.
- The company "M. Video" opened the first shop – «dark store» with a delivery point and space for online orders formation. Lacking a shopping area, this format was firstly tested by one of largest UK retailers "Tesco".

Jewelry and bijouterie market shows a steady growth in St. Peterburg:

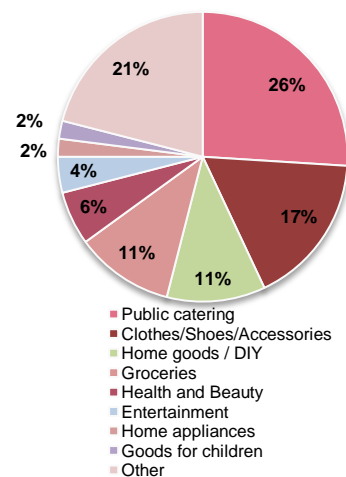
- The first Italian boutique "Alkozer & J" opened at the end of June, 2013 in St. Petersburg. Some other shops will be started in Moscow, Sochi, Vladivostok and other cities.
- A jewelry stand "Melagrano" was opened at the checkout area of hypermarket "Prisma" in SC "Grand Canyon".
- A jewelry manufacturer and retailer "Adamas" is going to start a new project with a French designer "APM Monaco" in Moscow. The new stores will be up to 60 sq.m area.

Breakdown of tenants specialty in Q3 2013 (shopping centers)



Source: ASTERA an alliance member of BNP Paribas Real Estate

Breakdown of tenants specialty in Q3 2013 (street retail)



Source: ASTERA an alliance member of BNP Paribas Real Estate



Project FASHION HOUSE
Outlet Centre St. Petersburg", the first outlet in St. Petersburg

Examples of transactions closed in Q3 2013 in St. Petersburg

Brand	Area, sq.m	Specialty	Address
Bershka и Pull&Bear	1 500	Apparel	SC "London Mall"
Takko Fashion	1 000	Apparel	SC "London Mall"
Bershka	N/A	Apparel	SC "Balkania Nova-2"
New Yorker	N/A	Apparel	SC "Balkania Nova-2"
Russo Burger	70	Public catering	SC "Vladimirsky Passage"
Cinnabon	90	Public catering	SC "Atrium"
Quiznos	120	Public catering	Moskovskiy pr., 2
Quiznos	100	Public catering	pr. Engelsa, 136
LR Health & Beauty	550	Cosmetics and perfumery	Ligovskiy pr., 264
Ficha	400	Appliances and Electronics	MFC "Velikan Park"
Hockey Hall	1 100	Training center	SC "Avenue"
Lukomorye	620	Children's goods	MFC "Velikan Park"
Magnit	426	Groceries	Lomonosov town
Sberbank	161	Banks	Vyborgskoe sh.
Yugra bank	143	Banks	Komendantskiy pr., 11

Source: ASTERA an alliance member of BNP Paribas Real Estate

VACANCY AND RENTAL RATES

Shopping centers. As of the end of Q3 2013, the weighted vacancy rate in St. Petersburg shopping centers dropped by 0.4% below the previous quarter and stood at 3.1%.

ASTERA analysts take the view that the decrease in vacancy happened due to the latest shopping centers being actively occupied during the third quarter. For instance, the vacancy in SC operating one year and less dropped from 10.5% in Q2 2013 to 8.6% in Q3 2013.

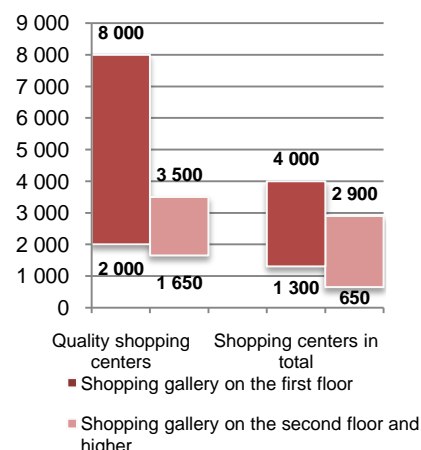
In total, the reporting period didn't bring significant changes to the St. Petersburg retail market. The market has been gradually developing. From one side, the fluctuations of rental rates were at a minimum, from another side, tenants' flow-outs weren't recorded and the wait lists continued to take place in most liquid shopping centers.

By the end of September of 2013, the weighted average for asking rents measured 4,060 RUB in regional and super regional shopping centers, 2,040 RUB in community shopping centers, 1,420 RUB in neighborhood shopping centers per square meter per month (VAT excluded).

Street retail. In the reporting quarter, rental rates for street retail facilities did not substantially change when comparing to the first half of the year. However, there appeared a growth of rental rates in some shopping corridors (near "Vasileostrovskaya" and "Moskovskaya" metro stations) sparked by a high level of demand for premises becoming available due to both the expiry of lease agreements and tenants' rotation. Considering the popularity of these shopping corridors, the demand from retail operators significantly surpassed the available supply, which led to an increase in rental rates.

Long-term agreements were still dominated in the lease market. The share of this type of contracts concluded in Q3 2013 amounted to approximately 80%.

According to the latest rules of the lease agreements registration, tenants have to obtain a cadastral plan to the area for rent, this measure leads to an increase in the amount of sublease contracts. The new rules resulted in extending of agreement's registration period by at least 20 days, which is important for operators specializing in licensable type of activities (such as public catering, grocery store chains, health centers).

Average asking rental rates in shopping centers of St. Petersburg, Q3 2013, RUB/sq.m/month, incl. VAT**The range of rental rates on main shopping corridors**

Shopping corridor	Rental rate, thou. RUB/sq.m/month*	
	Q2 2013	Q3 2013
Nevsky pr. (from M. Morskaya up to Vosstaniya)	6,5 – 12	6,5 – 12
Near "Moskovskaya" subway station	3,5 - 8	4,5 - 8
Near "Ploshad Vosstaniya"	6 – 10	6 – 10
Near "Vasileostrovskaya"	2,5 – 4,5	4,5 – 6
Ligovsky pr.	3,5 – 4,8	3,5 – 4,8
Near "Bolshevikov pr."	2,5 - 4	2,5 - 4

* incl. 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.

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 2010, according to annual rating of authoritative publication Property Week.

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 clients' interests
- Property management
- Legal services
- Real estate projects promotion

A reputation of ASTERA is 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(44) 501-5010

Fax: +380(44) 501-5011

www.asteragroup.ru
marketingspb@asteragroup.com