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St. Petersburg
Retail Real Estate Market Review
1H 2010

August 2010

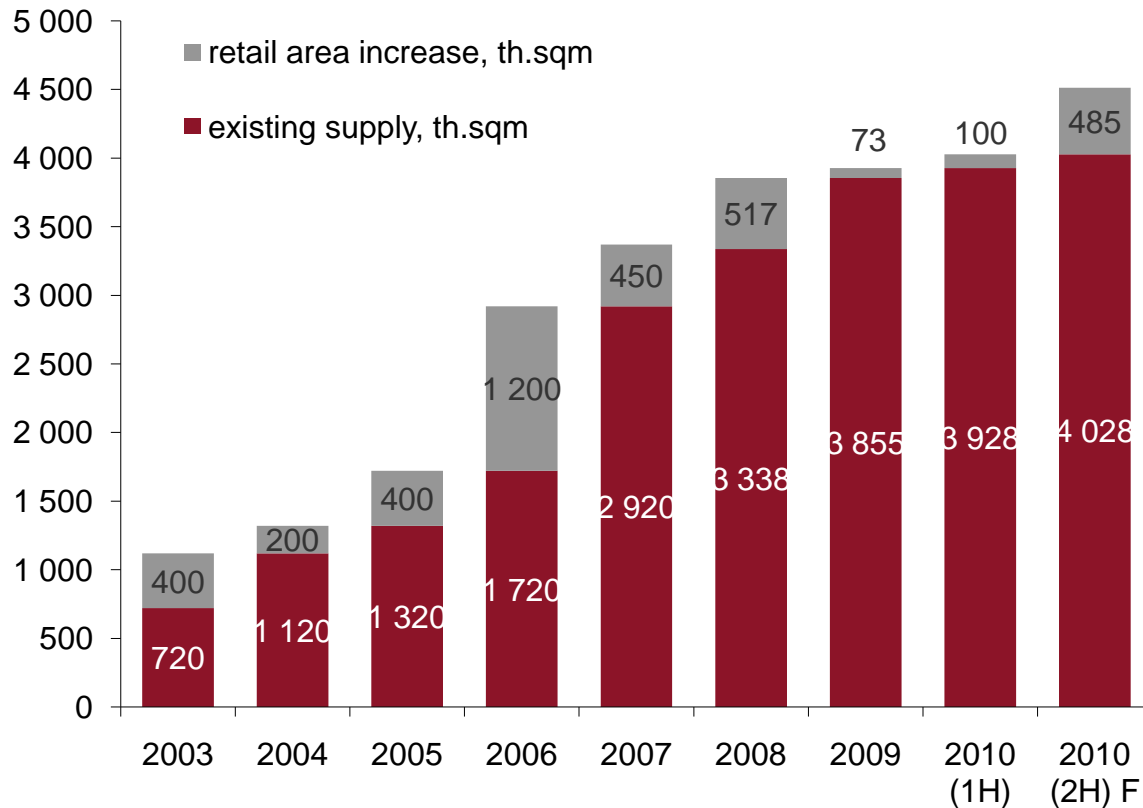
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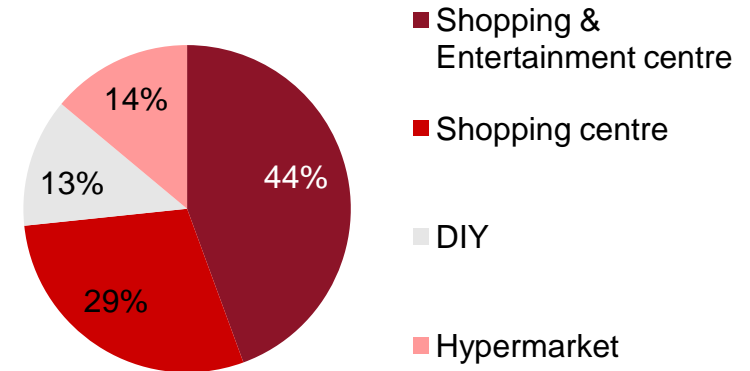
Retail real estate segment, as the most dynamic, has changed quirkier and continued to demonstrate positive signs of recovery which began at the end of 2009

- ✓ During 1H 2010 about 100 000 sqm of new retail objects were launched on St. Petersburg market, which is 1.5 times more than in 2009, which illustrates a gradual restoration of St. Petersburg real estate market, and the retail segment in particular, after crisis period.
- ✓ In 1H 2010 considerably high activity of the tenants has been marked – a number of retailers have occupied large areas in the existing malls with high visitors' traffic and in large malls under construction.
- ✓ High tenants' activity is observed in the street-retail segment. The most popular premises are located both in the main commercial corridors in the centre of St. Petersburg and in the highly populated residential districts close to metro stations.
- ✓ Foreign retailers demonstrate growing interest and enter St. Petersburg's market – for instance, Decathlon, French chain of sport hypermarkets, intends to lease large areas in the shopping and entertainment centre Leto (Summer), which is under construction on Pulkovskoe highway.
- ✓ In order to keep the existing tenants' pool the owners of retail objects continue to make concessions and reduce rent rates. In 2009 this trend was applicable to all the retail objects, but now – only to the malls with low level of attendance and low occupation rates.

For 1H 2010 about 100 000 sq. m have been commissioned in St. Petersburg, which already exceeds the volumes launched in 2009. In 2H 2010 about 490 000 sqm of retail real estate are announced to be commissioned.



Dynamics of St. Petersburg's retail real estate market, thousand sqm



St. Petersburg's retail real estate market structure, 1H 2010

Supply of new retail premises in 1H 2010 is represented by 5 malls with total GLA of about 70 000 sqm

No	Name	Address	District	GBA, sqm	GLA, sqm	Type	Commission Date	Developer
1	Osinovaya Roscha, 1 st stage	Pargolovo, Vyborgskoe highway / KAD	Vyborgskiy	40 000	32 000	Mixed -use	2Q 2010	Adamant
2	Smile	Bolshevikov pr. / Krylenko st.	Nevskiy	11 000	7 500	Retail, offices	2Q 2010	Donk
3	Grand Canyon Furniture Centre	Building 1, 8 Shostakovich Street	Vyborgskiy	30 475	15 000	Furniture Centre	2Q 2010	Solomon
4	Zvenigorodskiy	Zvenigorodskaya st. / Zagorodnyi pr.	Central	5 900	4 300	Mixed -use	2Q 2010	Adamant
5	Nikolaevskiy Passage	Stremyannaya st. / Marata st.	Central	13 000	10 000	Retail, entertainment	2Q 2010	Nevskie Bani
TOTAL				100 375	68 800			

Furniture centre Grand Canyon which was practically leased by the opening date and Smile mall are open for customers.

In Zvenigorodskiy, Osinovaya Roscha and Nikolaevskiy Passage malls the tenants selection is in process, the objects are not open for customers yet.

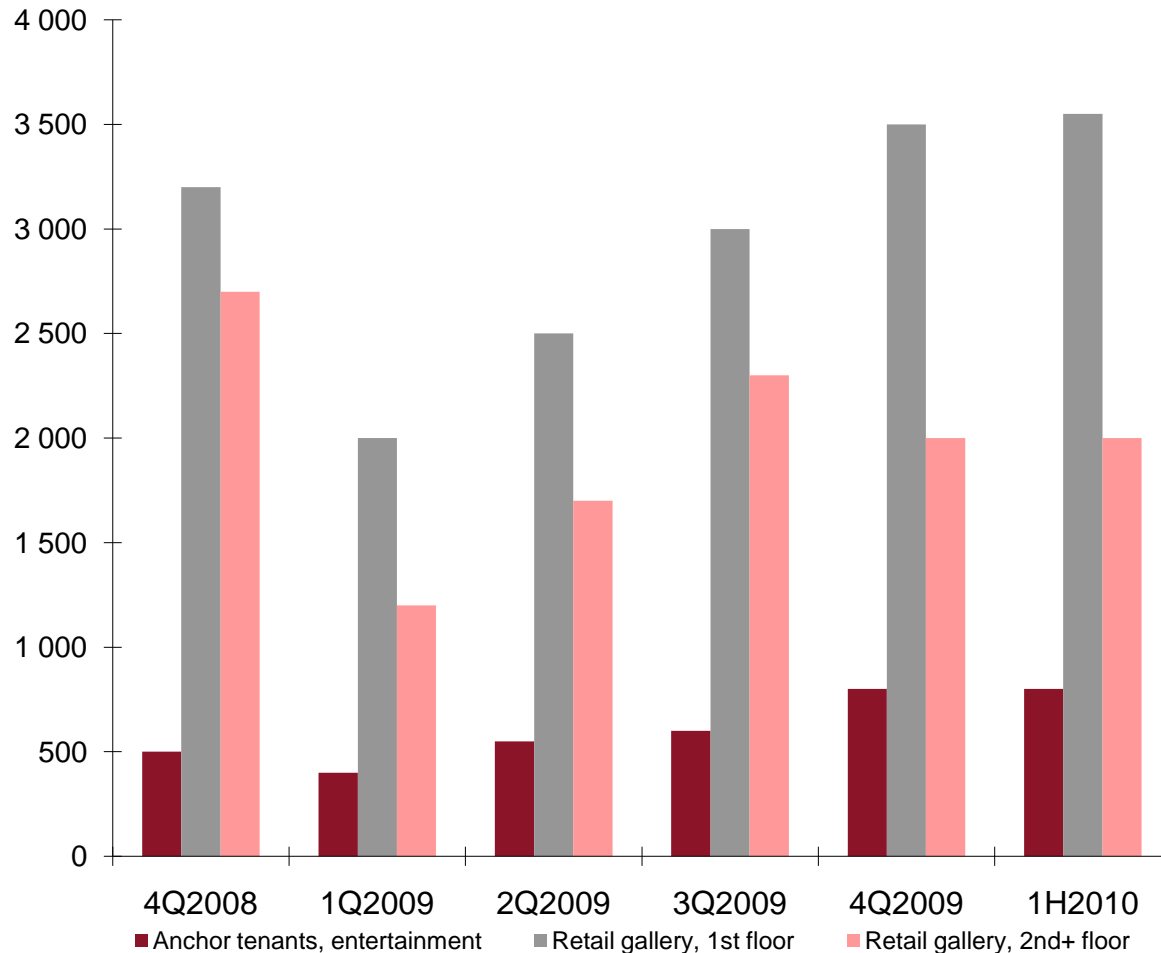
In 2H 2010 about 490 000 sqm of retail real estate are expected to be commissioned, which is similar to pre-crisis volumes, when St. Petersburg retail real estate market experienced qualitative and quantitative growth. The major part of new areas belongs to three retail objects – Galeria, Leto (Summer) and Stockmann Nevskiy Centre.

No	Name	Address	Region	GBA, sqm	GLA, sqm	Type	Commission Date	Developer
1	Nevskiy Plaza	55-57-59 Nevskiy Avenue	Central	4 200	4 000	Mixed-use	3Q 2010	IHI Benelux
3	Leto (Summer)	Lot 7, Pulkovskoe highway	Moskovskiy	100 000	76 000	R&E	3Q 2010	Sistema Hals North-West
4	Galeria	26-38 Ligovskiy pr.	Central	200 000	92 000	Mixed-use	4Q 2010	Briz
5	Stockmann Nevskiy Centre	114-116 Nevskiy pr.	Central	97 000	38 000	Mixed-use	4Q 2010	Stockmann St. Petersburg Centre
6	Balkania NOVA, 2 nd stage	5, Balkanskaya Square	Frunzenskiy	31 000	27 000	R&E	4Q 2010	Adamant
7	Platforma	Zanevskiy pr. / Energetikov pr.	Krasnogvardeyskiy	5 000	3 700	R	4Q 2010	STEP
8	Felicita Pionerskaya (City Mall), 3 rd stage	5, Ispytateley pr.	Primorskiy	47 500	45 000	R&E	4Q 2010	Macromir
TOTAL				484 700	285 700			

The retail real estate segment is still a tenants' market. Retailers continue to select from the great number of offers and impose their leasing terms on the owners.

- ✓ Distinction between high and low-quality retail premises becomes clearer as retailers demonstrate steady demand for shopping & entertainment complexes with high customers traffic, while objects with low customers traffic and located far from metro stations or main retail corridors are not demanded.
- ✓ Tenants' rotation both in malls and in street retail segment continues. In street retail segment rotation is most visible. Tenants leave the places which don't provide high profitability of the shops.
- ✓ Operators of various price segments continue their active development. The retailers oriented on middle income consumers are developing most dynamically. Some operators open new super-sale stores or change already existing store concepts to the discounter format.
- ✓ The most active tenants categories are catering and food retailers, clothes and shoe stores.
- ✓ New brands, including international ones, enter the market of St. Petersburg or announce their planned entrance this year, which demonstrate growth of attractiveness of the retail real estate market and continued growth of demand.
- ✓ The level of vacant areas in the malls has reduced in comparison to the end of 2009. For successful retail objects this level is less than 5%. In less successful projects the average vacancy ratio is about 15-20%, and reaches 40% in a number of falling behind projects.

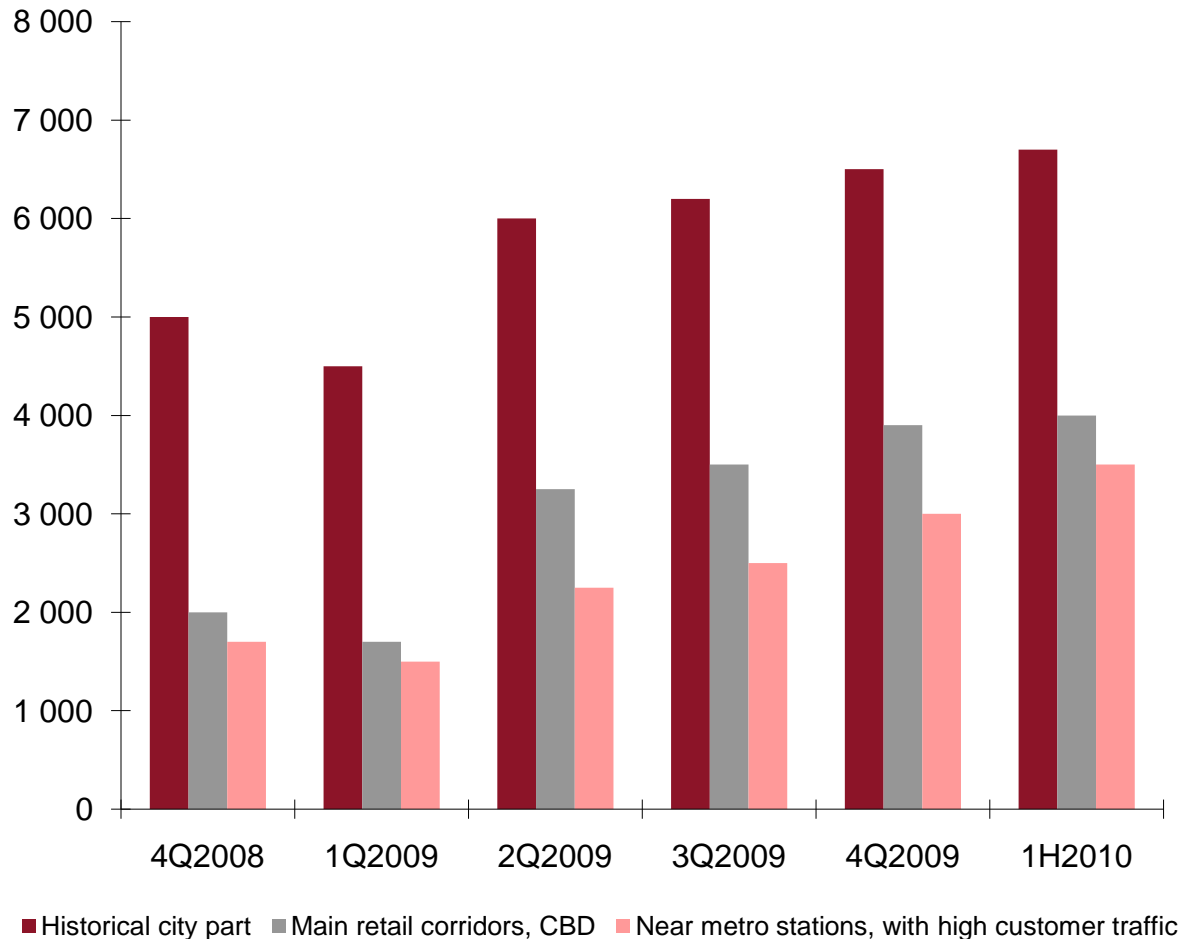
In 1H 2010 rent rates in St. Petersburg malls changed insignificantly.



Monthly rent rates in malls, RUR/sqm (incl. of VAT)

- ✓ After the drastic fall of rent rates in 1H 2009, when the reduction was 25-30%, by the end of 2009 rent rates have stabilized.
- ✓ At the beginning of 2010 the rent rates in St. Petersburg malls changed insignificantly – in the most popular objects the growth was within 3%.
- ✓ At the beginning of 2H 2010 monthly rent rates in the malls were the following:
 - For anchor tenants and entertainment operators – 700 – 1 000 RUR/sqm (incl. VAT)
 - For gallery operators – 1 500 – 4 500 RUR/sqm (incl. VAT), depending on the floor, location and size of the leased space.

Until the end of 2010 rent rates in malls will grow at a slow pace



Street-retail monthly rent rates, roubles/sqm (incl. VAT)

- ✓ Changes in street retail segment are more dynamic than in malls
- ✓ In 1Q 2010 the level of rent rates increased by 10% on average, for the most popular objects in the centre of the city – by about 17%.
- ✓ During 2Q 2010 the rent rates level didn't practically change.
- ✓ At the beginning of 2H 2010 monthly rent rates were 4 500 – 7 000 RUR/sqm (incl. VAT) for historical centre and main retail streets.
- ✓ For the premises located close to metro stations in residential districts, monthly rent rates are 2 000 – 3 500 RUR/sqm (incl. VAT).

Till the end of 2010 rent rates for street retail will gradually grow, probably by 7-10%.

1H 2010 was marked by the growth of St. Petersburg retail market – tenants more actively search for new premises and regard lease offers, owners gradually increase rent rates, the vacancy level in successful retail objects reduces.

- ✓ Despite the positive trends observed on the market, recovery of St. Petersburg retail real estate market to the pre-crisis level will be slow.
- ✓ Tenants become more selective and picky in evaluation retail premises to lease. Only high-quality malls with high visitors traffic, favourably located, with good transport and pedestrian accessibility, with a well-worked concept and strong tenants pool will be in demand.
- ✓ In 2010 volume of retail real estate premises in St. Petersburg can grow by about 450 000 sqm. Then, in next 2-3 years, the growth dynamics will slow down because of delay and cancellation of projects implementation as a result of financing problems during the crisis.
- ✓ We expect that 2H 2010 will be generally positive for the market. Practically all the market players have already adapted to new market conditions, corrected their development plans and marketing strategies in accordance with the changes in demand and market circumstances.
- ✓ Market becomes more lively, but volume and value of transactions still will be considerably lower than in pre-crisis period.



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