



PROFESSIONAL
REAL
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MOSCOW RETAIL REAL ESTATE MARKET REVIEW 2009



**BNP PARIBAS
REAL ESTATE**

An alliance member of BNP Paribas Real Estate

MAIN INDICATORS OF MOSCOW RETAIL REAL ESTATE MARKET

Main indicators of the development of the Moscow retail real estate market in 2009 are represented in the following table:

Table №1. Main indicators of Moscow retail real estate market

Total stock of retail premises in Moscow at the end of 2009	
Total stock, mln. sq.m	8,576
GLA, mln.sq.m	4,76
Commissioned in 2009	
Total stock, th. sq.m	1 046
GLA, th.sq.m	570
Growth of retail area in 2009	
Growth of total stock, %	13,9
Growth of GLA, %	13,6
Vacancy rate at the end of 2009, %	7-10

Source: ASTERA

SUPPLY

In 2009 the total stock of high quality retail premises in Moscow increased by 1.046 mln. sq.m, GLA – by 570 th.sq.m. Thus, at the end of 2009 the total stock of retail premises in Moscow amounted to 8.576 mln.sq.m, GLA – to 4.76 mln.sq.m. An increase of total stock comprised 13.9% in 2009, of GLA – about 13.6%.

Among the retail premises commissioned in 2009 ASTERA specialists can highlight the largest ones: Gold Babylon Rostokino, Gorod (Entuziastov hw.), Metropolis, total area of each project exceeds 200 th.sq.m, and Filion of total area of more than 100 th.sq.m.

The majority of the projects put into operation in 2009 refers to mixed-use complexes or retail and entertainment centers.

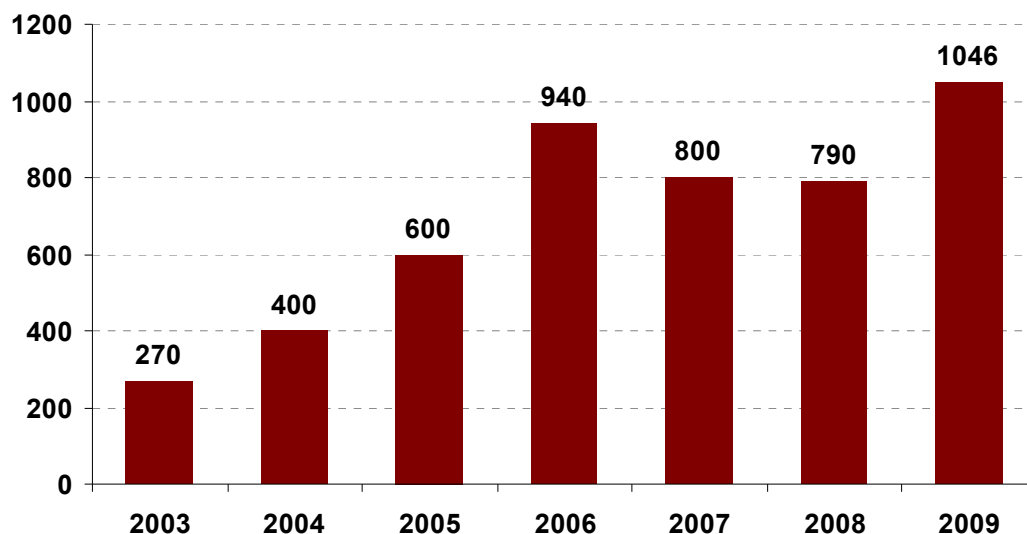
Table №2. Retail area commissioned in 2003-2009

Year	Total area, th.sq.m
2003	270
2004	400
2005	600
2006	940
2007	800
2008	790
2009	1 046

Source: ASTERA

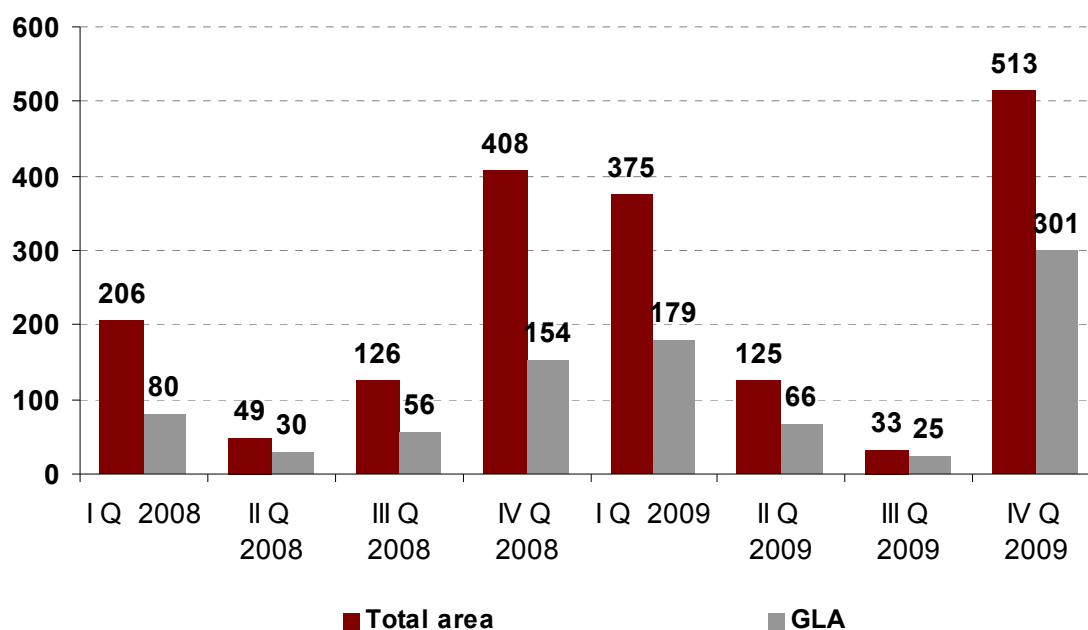
In 2009 the dynamics of commissioning exceeded the levels of the previous years. Compared to 2008 the retail area put into operation in 2009 was almost one third higher. A number of opened shopping centers were at the final stages of construction, the projects were to be commissioned in 2008 that explains the dynamics.

Dynamics of retail area commissioned in 2003-2009, th.sq.m



Source: ASTERA

Dynamics of retail area commissioned in 2003-2009, quarterly, th.sq.m



Source: ASTERA

Table №3. Projects commissioned in 2009

Project name	Type	Location	Total project area, sq.m	GLA, sq.m	Developer/Investor	Date of opening
Metropolis	Mixed-use complex	Leningradskoye highway, 16	205 298	80 000	Capital Partners	March 2009 (official date of opening, retail premises were opened on 31 Jan., 2009)
Megapolis	Retail and entertainment center	Andropova av., 4-10	72 000	44 000	Mosrubkhoz Ltd.	February 2009
Spektr	Retail and entertainment center	Novoyasenevsky av., 1	63 000	35 000	Z_Build	March 2009
Pavlovo Podvorie *	Retail and entertainment center	Moscow region Istra district, 14km from MKAD, 4km from Novorizhskoye highway	40 000	n.a.	OPIN	March 2009
Sветофор*	Retail and entertainment center	Moscow region Lubercy city, Pobratimov st., 7	36 163	25 114	Sветофор	February 2009
Prazdnik	Shopping center	Tushinskaya st., 13-15	34 940	20 726	n.a.	March 2009
Filion	Retail and entertainment center	Bagrationovsky pas., 5-7	104 700	55 000	Rubin Development	June 2009
Na Begovoy	Shopping center	Khoroshevskoye hw. 2-20, block A	19 700	10 650	DS Development	April 2009
Kashirsky Dvor	Specialized retail center	Crossing of Kashirskoye hw. and Kolomensky pas. (Kashirskoye hw. 19, bld.2)	21 000	16 500	Kashirsky Dvor Ltd.	July 2009
Darya	Shopping center	Stroginsky blv., 1	12 000	8 000	n.a.	September 2009
Gold Babylon Rostokino	Retail and entertainment center	Mira av., 211	241 000	170 000	Patero Development / Immoeast AG	November 2009
Gorod	Shopping center	Entuziastov hw., 12/2	240 000	110 000	TEN	December 2009
RIO	Furniture retail center	Leningradskoye hw., 25	32 000	21 000	Tashir	November 2009
TOTAL			1 046 th.	570 th.		

* located in Moscow region, wasn't included into indicators

Source: ASTERA

For a number of reasons opening dates of such large projects as River Mall, Mall of Russia, Vegas, etc. were moved to 2010-2011.

Table №4. The largest projects planned for commission in 2010

Project name	Type	Location	Total area, sq.m	GLA, sq.m	Developer
Vegas (before Kashirsky Mall)	Retail and entertainment center	Crossing of 24 th km of MKAD and Kashirskogo hw.	398 000	120 000	Crocus Group
Mall of Russia	Retail and entertainment center	Moscow City territory, Krasnopresnenskaya quay, plot №6, 7, 8B	179 423	114 213	AFI Development
Viva	Retail and entertainment center	Northern Butovo, Kulikovskaya st.	32 000	21 900	Perga Development and Management; Accent Russia Opportunity Fund
Markos Mall	Retail and entertainment center	Altufievskoye hw., 70	36 200	29 000	Group of companies Markos
Gagarinsky	Retail and entertainment complex	Crossing of Third transport Ring, Leninsky av., Vavilova st.	200 000	70 000	Auchan (15%), Moscow machine-building plant named after Sergo Ordzonikidze (85%)
Favorit	Retail and entertainment complex	Crossing of Uzhnobotovskaya st. and Venevskaya st.	37 000	21 900	Favorit-alliance Ltd.
Kluchevoy	Retail and entertainment complex	Crossing of Borisovskye Prudy st., Kluchevaya st., Paromnaya st.	26 600	13 700	Ferro-stroy
Rechnoy vokzal, I phase	Retail and entertainment center	Festivalnaya st., 2-4	26 000 (I phase)	18 140 (I phase)	n.a.
TOTAL			950 000	410 000	

Source: ASTERA

In 2009 number of declared projects dropped – only 4. Here, in the second and forth quarters no retail projects were declared. For comparison, in 2008 27 retail real estate projects were declared.

Table №5. Projects declared in 2009

Project name	Location	Total project area, sq.m	Developer / Investor	Planned date of commission	Comments
Mixed-use retail and leisure complex	Crossing of Borisovskye Prudy st. and Brateevsky bridge	21 696 (11 404 sq.m – ground part, 10 292 sq.m – underground part)	Tender for the plot leasing will be held	n.a.	Investments - 1,297 bln. rub.
Mixed-use complex	Zelenograd, Unosty st., 6	19 664 (leisure and entertainment zone - 8 200 sq.m, retail – 1 660 sq.m, sport – 800sq.m, office - 2 000 sq.m)	Search of investor is on	n.a.	Reconstruction with new buildings
Mixed-use complex with apartments	Grodnenskaya st., 12	n.a.	Design and construction will be performed by means of Financial and Business management of City Hall	2010 - the construction starts	Land plot 0.81ha

Project name	Location	Total project area, sq.m	Developer / Investor	Planned date of commission	Comments
Shopping center	Varshavskoye hw., 140	47 876	Karenfor	End of 2010 - commission	Above-ground part - 31 753 sq.m, underground part – 16 122 sq.m

Source: ASTERA

Besides, termination of construction of some projects was declared in 2009:

- ✓ The Moscow authorities called off construction of mixed-use center in the Central district in Tverskoy bly, 17, bld. 7-8. The reason for this decision of the construction canceled and termination of the contract with the investor – Pushkinsky center and Co. Ltd. was the fact, that the project was partially located at the territory of the objects of cultural heritage security. The investor will receive the compensation.
- ✓ The Moscow authorities decided to call off the construction of the retail complex above the underground station Shabolovskaya according to “impossibility of its realization”. The decision of the ground hall of the station reconstruction was made in 2005, according to the concept, the retail center of 1800 sq.m was planned for construction. According to Interfax-Real Estate, the investor Turan Ltd. will receive the compensation.
- ✓ “Serp and Molot” plant broke off relations with the development group “Corporation of the territory development” (KRT) that planned to build a mixed-use complex on the land plot belonged to the plant. The area of the project with residential, retail and office premises had been planned to make up about 50 th.sq.m, the total investments – about \$100 mln.
- ✓ The Moscow authorities annulated the investment contract with the Wood-working plant concerning construction of a mixed-use retail complex in the western part of Moscow. The contract was made in October 2005 and it stipulated that the company within 5 years would reorganize its industrial territory in Berengovy passage, 5 of more than 66 th.sq.m for construction of a mixed-use center of total area of 23 473 sq.m.
- ✓ The Moscow authorities called off construction of retail premises under the Pushkinsky square. Before, according to the plans of the Moscow authorities, within 4 years an underground mixed-use complex with café and restaurants, exhibition halls and parking would have been constructed.
- ✓ It was declared in the forth quarter, that the decision of construction of a shopping center with underground parking in Slavyanskaya square was cancelled. According to arendator.ru, the decision was made because there are no foundations considered by the Land Code of RF of delivering on a sole source basis to the investor Pailtech Ltd. the land plot. It isn't possible to build the shopping center on the land plot according to the development plan of Kitay-gorod district.

DEMAND

During the whole 2009 the demand for commercial real estate, including retail premises was low compared to pre-crisis period. The situation was especially heavy in the first half of the year when the supply of retail premises exceeded the demand significantly. In July-September the demand from the retailers started reviving: the most active market participants were clothes and cosmetics retailers. Besides, the demand was also high from the food retailers, especially in discount segment.

During the first half of 2009 the vacancy rate in retail real estate market was increasing. By the end of June the average vacancy rate in Moscow retail premises had reached its maximum: 11-15%. In new built projects the rate could reach 25-35% while in the first half of 2008 the average vacancy rate didn't exceed 3%. In the III-IV quarters of 2009 this indicator decreased slightly and stood at 7-10%. Here it must be highlighted that in high quality shopping centers there could be no vacant area.

In 2009 the following lease agreements were made in Moscow shopping centers:

Table №1. Large lease deals in shopping centers in 2009

Project	Address	Tenant	Area, sq.m
Mall of Russia	Moscow City territory, Krasnopresnenskaya quay	Hennes & Mauritz (H&M)	2 560
Megapolis	Andropova av., 4-10	Multiplex Raduga Kino	3 500

Source: ASTERA

Besides, in the second quarter of 2009 it was reported that AS Capital Department Store, developing Britain chain Debenhams in Russia, planed to open two department stores (about 3 th.sq.m each) in Mall of Russia and in reconstructed building of the hotel Minsk in Tverskaya st.

STREET- RETAIL

As far as street-retail segment is concerned, it was the most active market segment in 2009. At the end of the year an increase in rental rates for some premises of street-retail was observed.

Nevertheless, summarizing the results of 2009, in main retail corridors the vacancy rate stood at 3-10%, though in pre-crisis period it didn't exceed 1-3%. At the end of the second quarter growth of vacant area slowed down, by the end of the year vacancy rate in main retail corridors had decreased. Besides, in 2009 some branding outlets in the center of Moscow were closed. Amid the crisis conditions economic efficiency came out on top, retailers can't afford lossmaking outlets. Thus, in 2009 the following outlets were closed: Evroset, retail gallery of Samsung Electronics and Diesel in Tverskaya street, boutiques of Stella McCartney and Alexander McQueen in Kuznecky Most street, etc.

The year of 2009 permitted some companies to take on lease retail premises in successful shopping centers, that also increased vacancy rate in retail corridors. Besides, a decrease in rental rates provided possibilities to lease street-retail premises by those retailers who couldn't have afforded high rental rates especially in landmark spots where rental rates were overestimated.

In 2009 the structure of demand for street-retail premises slightly changed, activity of small chains increased, such as chemists shops, grocery stores, medical centers, etc. The majority of requests for street-retail premises lease was made for facilities of 50-150 sq.m. The retailers of "middle" and "middle-" price brackets were the most active.

RENTAL RATES

During the first half of 2009 a decrease of rental rates started at the end of 2008 was going on, however in the second quarter the dynamics of decreasing slowed down. Because of the retail real estate segment diversity, a decrease of rental rates depended on a certain project. In the third quarter a stabilization of the rental rates was observed. In the fourth quarter a slight increase of rental rates was marked in some premises.

In whole in Moscow retail real estate market by the end of the first quarter 2009 rental rates had decreased by 15-20%. In the second quarter there were no significant rents movements, however by the end of June the maximum declared rental rates for some premises had decreased by 30-35% compared to the pre-crisis level. Nevertheless, some landlords of successful projects with high level of demand didn't revise the rents significantly.

Besides, in 2009 a declared rental rate could be reduced greatly during the negotiations: for example, in some deals a discount could make up 25-30%, in street-retail segment a discount could reach 40%.

Table №7. Rental rates in shopping centers, III-IV Q 2008, 2009

Tenant type	Rental rates, \$/sq.m/year, II half 2008	Rental rates, \$/sq.m/year, II half 2009
Anchor tenants	125 - 600	80-400
Tenants of entertainment zone	180 - 700	100-250
Tenants of retail galleries	500 – 6 100	450-3500

Source: ASTERA

Some trends of the end of 2008 concerning providing favorable terms for tenants were also observed in 2009: lease vacations for the first year, fair exchange rate, deposit could have been significantly reduced (not more than a month), favorable payment conditions were offered, for example, extension of time for deposits. In some retail centers tenants paid percentage from turnover (4-5% for anchor tenants, 8-10% for tenants of retail galleries).

STREET- RETAIL

In street-retail segment maximum rental rates decreasing was observed in retail corridors with traditionally high level of rental rates: Tverskaya st., Kuznecky Most st. By the end of June the rental rates had stabilized, in the third-forth quarters for some retail premises there was observed an increase in rental rates.

Table №2. Retail premises rental rates in main corridors of street-retail, 2009

Street	Rental rates, \$/sq.m/year, I Q 2009	Rental rates, \$/sq.m/year, IV Q 2009-beginning of I Q 2010
Tverskaya st.	1 000 – 3 500	1 400 - 6 000
Petrovka st.	1 300 – 3 000	1 500 - 4 000
Arbat st.	1 800 – 2 400	1 300 - 3 500
1 st Tverskaya – Yamskaya st.	900 – 1 300	900 - 2 500
Kutuzovsky av.	1 100 – 3 000	1 300 - 3 000
Leningradsky av.	1 000 – 2 100	700 - 2 900
Prospect Mira	1 200 – 2 300	700 - 2 600
Ostozhenka	1 200 – 1 600	1 000 - 1 600
Maroseyka st.	1 300 – 2 500	1 500 - 2 500
Bolshaya Dmitrovka st.	1 500 – 3 500	1 200 - 3 000
Piatnickaya st.	1 000 – 1 500	1 100 - 2 000
Leninsky av.	800 – 1 500	500 - 2 500
Kuznecky Most st.	1 500 – 2 200	3 000 - 4 500
Miasnickaya st.	1 100 – 1 600	1 500 - 2 200

Source: ASTERA

In 2009 retail premises landlords in street-retail segment were ready to make concessions and reduce rental rates but tried not to make long-term agreements. Some tenants didn't accept such terms because, as against shopping centers, premises in streets often need significant investments into decoration and reconstruction, that increases a project payback period.

It must be highlighted that already at the end of 2009 – beginning of 2010 a significant growth of rental rates was observed, due to the expiration of a "discount" crisis period of lease agreements. In some premises the rental rates almost reached the pre-crisis level.

TRENDS:

- ✓ In 2009 the commission dynamics exceeded the previous years' level. More than a half of retail projects opened and planned for opening in 2010 are those ones with initial opening dates in 2008 and beginning of 2009. Thus, 2009 and 2010 could become peak years before a significant drop of commission volume.
- ✓ In 2009 a sharp decrease of number of declared projects was observed, that was a logical influence of the global crisis on the commercial real estate market.
- ✓ In the first half of the year retail facilities with discounts of up to 50% were put up for sale. Number of investment proposals increased, however, activity of potential investors was rather low.
- ✓ Retail projects opened in 2009 were not full completed with tenants. By average Moscow new built projects were completed by 40-60%. By the end of the first half of 2009 in Moscow shopping centers average vacancy level reached unprecedented 11-15%. In the second half of the year it decreased and stood at 7-10%, here it varied in different projects.
- ✓ 2009 has become a record year of rental rates decreasing. Maximum rental rates for some premises decreased by 30-35% compared to the pre-crisis level. In street-retail segment maximum rental rates decreasing was observed in the central retail corridors. However by the end of the year the rental rates had started constant increasing.
- ✓ During 2009 attractive proposals of retail premises lease and purchasing entered the market. For the last few years such premises weren't moderate for many tenants.
- ✓ In 2009 an exposition period of retail premises increased. Many projects even with successful location couldn't find tenants promptly.
- ✓ Some trends concerning providing favorable terms for tenants were also observed in 2009: lease vacations for the first year, fair exchange rate, reducing of deposit (not more than a month), favorable payment conditions.
- ✓ Many foreign retailers opened their outlets in Russia in 2009 or declared their plans of entering the market. Retail premises rental rates decreasing led to reducing of entering costs for new players. The Russian market has been for quite a long time an important direction of business development and decreasing of costs for new outlet opening provides opportunities to penetrate the market. H&M, Kika, River Island, Ipekyol, New look, Bebe, Gap, etc. already entered the market in 2009. Debenhams, Harvey Nichols, Habitat, Sainsbury's, Aldi, etc. also announced plans of opening their outlets. Nevertheless, a number of retailers under the strain of the financial crisis decided to postpone entering the Russian market for 1-2 years.