

RETAIL MARKET REVIEW

MOSCOW



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« The Russian real estate retail market has entered a phase of maturity. Due to the instability of financial markets the level of requirements for premises and selectiveness of the operators have sharply increased. Retailers have changed their strategy of development. Refusing from concentrating on rapid growth of the quantity of shops at any cost, they've turned to a balanced policy of choosing every single premise considering its potential. Many operators design conservative development strategies for 2012, abandoning unprofitable outlets and preparing rental cost optimization plans.»

MAJOR TRENDS

- Certain stabilization has appeared in the shopping mall segment. The lack of financing in construction sector associated with 2008-2009 crisis led to the reduction of commissioned stock volume in 2011. With a stable demand for retail space, vacancy rates have reached a near-zero level. In these conditions owners concentrated on increasing the effectiveness of existing facilities. A new tool for working with tenants such as percentage of turnover came into use. For the first time owners saw the tangible benefits of this instrument: it helped to attract tenants and insured the income growth of the owners.
- Restrictions for construction of commercial facilities in the city centre and low level of new facilities commission force actively developing retail networks turn to the street retail segment. Given the limited scope of existing stock of this premises' format and low potential of its development from the construction of new districts, there is a serious competition for the most attractive shopping areas. This is reflected in the rental policy of their owners.
- The importance of fashion projects decreases for developers. Many operators who have previously occupied premium class premises along Moscow major trade corridors shut down unprofitable outlets and relocate to shopping malls or dormitory district street retail. The intensity of pedestrian traffic in a zone where the properties located and the presence of target group become the significant factors defining development perspectives of retail operators.
- Two opposite tendencies of forming rent levels appeared in the segment of street retail. On the one hand, there is a decrease of rental rates (up to 10%) for over-priced premises with long exposition terms. On the other hand, there is an increase of rental rates (up to 25%) for highly liquid properties by the end of lease contract term and tenants' rotation in the major shopping streets. Considering the retailers' pragmatic approach to the selection of premises, this leads to an extension of exposition terms and further correction of the rental rates.
- The shortage of quality retail space and the high level of competition in Moscow encourage retailers to develop their business in dormitory areas, Moscow suburbs and regions. Satellite towns and areas of mass residential construction become a large trading platform for retail chains development, which actively displace local retailers from the market.

NEW STOCK



VACANT AREA



RENTAL RATES



CAPITALIZATION RATE

**KEY INDICATORS**

Key indicators of Moscow retail market development (shopping malls), results for 2011

Total stock of retail premises in Moscow at the end of 2011

Total area, sq.m	5 909 013
Leasable area, sq.m	3 255 500

Stock commissioned in 2011

Total area, sq.m	349 013
Leasable area, sq.m	235 503

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

Key indicators of Moscow retail market development (street retail), results for 2011

Average rental rates*, USD/sq.m /p.a.

Inside the Garden Ring	2 200
Between the Garden Ring and the Third Ring	1 700
Between the Third Ring and Moscow Ring Road (dormitory districts)	1 000

Average sale prices*, USD/sq.m /p.a.

Inside the Garden Ring	14 500
Between the Garden Ring and the Third Ring	5 000
Between the Third Ring and Moscow Ring Road (dormitory districts)	2 500

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

*Rent levels and sale prices are influenced by different factors such as proximity to subway stations, size and condition of premises etc., which are not reflected in the chart

SUPPLY

While the volume of new retail space commissioned in 2010 was record-breaking (total stock exceeded 1 mln sq.m), even the planned indicators were not reached in 2011 (349 013 sq.m commissioned). 2008-2009 crisis aftermath tendencies associated with delayed financing in construction and the restrictions for building commercial real estate in the city centre have created serious preconditions for the shortage of retail space in Moscow.

Premises scheduled to be commissioned in 2011-2012 are no longer able to satisfy the demand of retail chains for commercial real estate.

Many retail operators have already experienced a lack of space and therefore had to change their strategies. Some of them adjust the plans of opening new outlets, while others build their own trading premises (Lenta, Magnit) or move to street retail format. The shortage of quality retail space in Moscow and relatively low level of competition in Moscow suburbs commercial real estate market contribute to the development of retail real estate in Podmoskovye (retailers Azbuka Vkusa, Castorama, Obuv Rossii etc.). Companies which cannot find a proper niche in the capital market increase their expansion into regions (Kangaroo, Obuv Rossii, Detskiy mir etc.). The highest level of activity is observed not only in the cities with more than one million population, but also in those with over 500 000 population.

New retail real estate projects commissioned in 2011

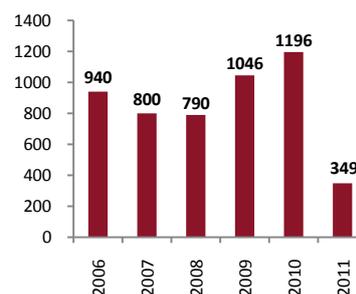
Supply of new retail space in 2011

Name	Type	Address	GBA, sq.m	GLA, sq.m
AFI Mall	Retail and entertainment centre	Presnenskaya nab.2	179 420	114 210
Planernaya	Shopping centre	Planernaya st. 8/6	14 790 (50 380*)	14 790
Severnoe Chertanovo	Shopping centre	Severnoye Chertanovo 1, lit A	35 000	20 000
Vitte Mall	Retail and entertainment centre	Venevskaya st.7	30 000	23 000
Otrada, 1phase	Retail and entertainment centre	Pyatnickoe aveunue, vl.2	30 000	25 000
Moskva	Mixed use	Okhotniy ryad st.2	27 800	21 000
Severnoe Siyanie	Retail and entertainment centre	blv. D.Donskogo/Ratnaya st.	20 000	12 000
EGO Mall	Shopping centre	Dejneva a.23	12 000	5 500
TOTAL			349 013	235 503

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

*Total area of the project is 50 380 sq.m, of which 14 790 is retail space and considering specifics of the object is leasable space. This space is considered in this report.

Dynamics of new retail space commission, 2006-2011



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



New retail and entertainment centre Vitte Mall



Trade gallery in multifunction complex Moskva



New retail and entertainment centre Otrada

DEMAND

After the active recovery of retailers' demand in 2010, this year they have focused on a pragmatic goal of increasing revenues from each retail outlet.

Operators' requirements for the premises have increased sufficiently compared to pre-crisis 2008-2009 period. Instability of financial markets since late summer 2011 has strengthened this trend. Many operators develop a more conservative strategy: abandon unprofitable outlets and prepare rental cost optimization plans for 2012.

Key leasing deals in 2011.

The following large leasing deals in top retail city corridors can be mentioned: the opening of the restaurant Chili's Grill & Bar at Novy Arbat, Grabli restaurant at Tverskaya, Diesel at Petrovka, Daum & Lalique at Nikolskaya, re:Store at Sadovo-Spasskaya, Sergio Bellini and Gavello boutiques at Tverskaya and Kuznetsky Most respectively.

Market participants are especially interested in the major city retail corridors which had the record-level rent rates during the last two years. Sale prices of street retail premises exposed on the market are overstated. For this reason the majority of requests for buying or selling premises remain unsatisfied. The range of rent rates depending on location, external characteristics and quality of the object, position of the lender in the market, can greatly differ from an average level and can be adjusted during the negotiations, either upwards or downwards.

Considerable deals in Moscow shopping mall segment in 2011

Tenant	GLA, sq.m	Shopping mall	Address
Podium Market	7 000	Trade gallery in multifunction complex «Moskva»	Okhotniy ryad st.2
Eldorado	3 300	AFI Mall	Presnenskaya nab.2
Apple Inc.	1 500	Trade gallery in multifunction complex «Moskva»	Okhotniy ryad st.2
Inditex	1 500	Azovskiy	Azovskays st.24/3
New Yorker	1 400	AFI Mall	Presnenskaya nab.2
X5 Retail (Zeleniy perekrestok)	1 309	AFI Mall	Presnenskaya nab.2
Golden-Plaza	1 300	Monarch	Leningradskiy av.31

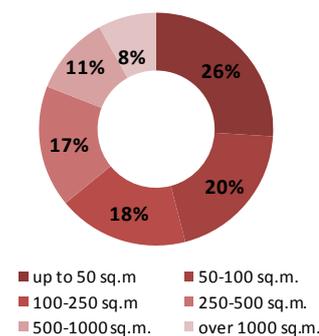
Source: ASTERA, an alliance member of BNP Paribas Real Estate

Demand structure

By format of premises

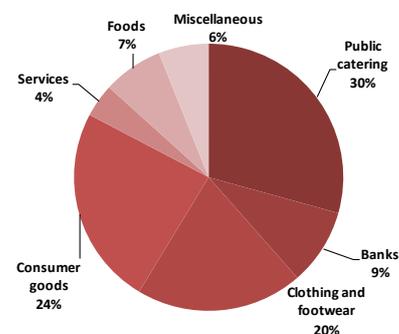
In 2011 the highest demand among potential tenants was for the premises under 100 sq.m (especially up to 50 sq.m). This is mainly due to the high rotation of tenants in this format.

Tenants demand distribution according to the retail premises format in shopping malls in 2011



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

Tenants demand distribution by the type of business in street retail segment in 2011



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

DEVELOPMENT OF RETAIL CHAINS

In 2011 many popular Russian brands announced their plans of further development. Most actively developing companies operate in the following sectors: public catering, foods, clothing, footwear and goods for children.

The increase of the quantity of players in the market looking for new premises for development happened mostly at the expense of franchisee companies (KFC, Subway, Burger King).

Brands who have announced franchise development plans in Russia in 2011

Brand	Business category
Burger King	Public catering
De Sallito	Children goods
Esprit	Clothing and footwear
Imaginarium	Children goods
Kostya Tszu by Concurrence	Clothing and footwear
KFC	Public catering
Mango	Clothing and footwear
Obuv.com	Clothing and footwear
s.Oliver	Clothing and footwear
Stenders	Clothing and footwear
Subway	Public catering
Victoria`s secret	Underwear
Moscow jewelry factory	Jewelry

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

At the same time, some foreign operators, such as Hermes, Bestseller (Jack & Jones, Vero Moda, Only) and Prada, abandon franchising and start the development of their own brands in Russia.

Kazakhstan's clothing retail chain for expectant mothers Biba B happy B mother has announced its development plans in Russia. New foreign brands have also appeared on Russian market: Victoria`s secret, Chili`s Grill & Bar, Reiss, American Eagle, Nordsee, Wendy's, etc., what indicates the steady interest of Western players to the Russian retail market.

However some brands have left the retail market during 2011. Castro left the market, Top-Book announced the plans to close most of its stores, and Wild Orchid is closing its Lingerie Bazaar stores and reducing the quantity of Wild Orchid stores (at the same time the company intends to develop its Defile retail chain).

Key foreign brands launched in Russia in 2011

Brand	Business category
American Eagle Outfitters	Clothing and footwear
Apple Store	Electronics
BabyBjorn	Children goods
Banana Republic	Clothing and footwear
Chili`s Grill & Bar	Public catering
DC Shoes	Sport goods
Gavello	Clothing and footwear
Hesburger	Public catering
Imaginarium	Children goods
Jimmy Choo	Clothing and footwear
Malemi (INCANTO)	Underwear
Nordsee	Public catering
Pandora	Jewelry
Petit Patapon	Children goods
Reiss	Clothing and footwear
Victoria`s secret	Underwear
Wendy's	Public catering

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

Key Russian brands who have appeared on the market during 2011

Brand	Business category
A.V.E.	Pharmacy
Fashion Galaxy	Clothing and footwear
VinBerry	Foods
Moscow Metropolitan	Public catering
Oki-Doki	Public catering
Horoshaya apteka	Pharmacy

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

Retail operators who have introduced new formats or announced rebranding in 2011

Brand	Business category
Apple Moon	Clothing and footwear
Castorama	Household goods
INCANTO	Underwear
Mercury Holding (TSUM)	Clothing and footwear
METRO	Foods
re:Store	Electronics
Auchan	Foods
DIKSI	Foods
Evroset'	Electronics
Magnit cosmetics	Cosmetics
Связной	Electronics
Starik Hotabich	Furniture
Eldorado	Electronics

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

RENTAL RATES

Compared to 2010 when street retail rental levels doubled and demonstrated active growth reaching pre-crisis levels, in 2011 the dynamics became more reserved. Rental growth within a year has reached 7% mark and only in major trade corridors located within Garden Ring.

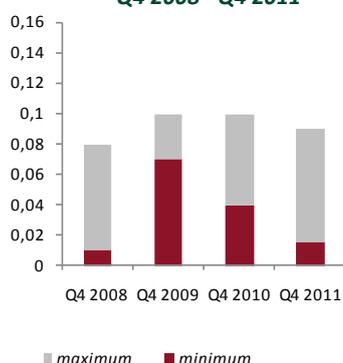
Rent level dynamics in Moscow shopping malls depended on demand for space in each particular property. In 2011 the most important factors were good location, proper and well-developed concept, efficiency of the marketing decisions.

Vacant areas

During 2011 the vacancy rate levels were steadily decreasing. By the end of 2011 they've reached a 2-3% mark for the most liquid premises in most successful retail projects. For comparison, the average vacancy in 4Q of 2010 was 5-6%.

Demand for new projects and delay in commission of some retail projects lead to a decrease in vacancy levels. Meanwhile the most popular properties with the lowest vacancy levels of 0-2% are successful conceptual shopping malls, such as retail and entertainment centers Evropeiskiy, Metropolis and shopping centre Atrium».

**Vacancy rate dynamics in Moscow shopping malls,
Q4 2008 - Q4 2011**



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

Anchor tenants' rental rates in Moscow shopping malls in 2011

Business category	Rental rate*, USD/sq.m/p.a.
Cinema	120-180
DIY	100-150
Foods	150-400
Household goods	300-400
Goods for children	300-500
White goods	250-400
Clothing and footwear	400-600

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

* Rent rates are indicated excluding VAT and operational expenses

Major tenants of trade galleries in Moscow shopping malls in 2011

Business category	GLA, sq.m	Rental rate*, USD/sq.m /p.a.
Public catering	50-300	800-2000
Clothing and footwear	50-200	1000-2500
Cosmetics and perfumery	50-300	1500-3000
Accessories	30-60	1500-3000
Cellular network	30-80	2500-4000

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

* Rent rates are indicated excluding VAT and operational expenses

Average rental rates range for street retail premises in major Moscow trade corridors in 2011

Trade corridors	Rental rate, USD/sq.m /p.a.
Tverskaya st.	1950-6000
Petrovka st.	1900-4100
Arbat st.	1700-3000
1 st Tverskaya-Yamskaya	1700-3000
Kutuzovsky av.	1500-2400
Leningradsky av.	1200-3000
Mira av.	1200-2100
Maroseika st.	1950-2500
Bolshaya Dmitrovka st.	1800-2500
Pyatnickaya st.	1200-1800
Leninsky av.	1100-2100
Kuznecky Most st.	1400-2500
Myasnitskaya st.	1100-2000

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

FORECAST FOR 2012

Supply

The limitation of commercial real estate construction in Moscow downtown, the absence of land plots for development and unstable situation on international financial markets predetermine the low level of new retail space put into operation in Moscow. Therefore out of 1 million sq.m of quality retail space developers announced for commission in 2012, more than 500 000 sq.m will be put into operation as a result of postponing commission from 2011. Due to the fact that construction of some of them has not even begun yet, approximately 500 th.sq.m of retail space is expected to be commissioned in 2012.

Due to the complexity of construction approval procedures in the capital, developers have to switch focus to construction in Moscow region. The following major projects are expected in 2012: Zhuk (Zhukovsky, 45 800 sq.m), Solnechniy (Solnechnogorsk, 19 000 sq.m), Park II (Krasnogorsk, 25 000 sq.m), June (Krasnogorsk, 25 sq.m), etc.

The suburban retail market is growing due to the new supply of ground floors street retail in residential projects within complex territory developments in Moscow satelits.

Some increase of retail real estate space in Moscow will also be possible through the construction of neighborhood shopping centers and convenience stores. Increasing retail space in Moscow region will be possible through complex residential area development projects with commercial retail space on the first floors.

Demand

Considering financial instability of 2012, many operators continue the conservative development strategy, abandoning unprofitable outlets and implementing rental expense optimization programs.

As competition is increasing, new retail formats are expected to appear. For instance, METRO Group plans to develop a franchising network of convenience stores, Auchan plans warehouse type Auchan Auto stores and without-cashier shops Rainbow, Mercury Holding plans to develop stores under TSUM brand name in the regions.

Unable to find retail premises in the capital, retailers focus on development in Moscow suburbs and regions. Many of them consider development in large residential projects in Moscow region and move to the regional cities with a population over 250 000 people.

Vacancy rate

Stable demand for retail space which is not met with the volume of new supply, will contribute to further reduction of vacancy rates in high-quality shopping centers.

2-3% vacancy rate level in successful shopping malls in the end of 2011 indicates only a vacancy required for normal tenant rotation. 7-10% vacancy rate in other malls is mostly associated with an unsuccessful concept. Considering the stable demand for retail space, this level is expected to reduce to 5-7% in 2012.

Rental rates

Given the uncertainty on financial markets and tightening of operators' requirements to retail premises, we don't expect any considerable increase of rental rates for retail premises. At the same time, with an increase of retail operators' turnover and growing demand for commercial properties, rental rates have some growth potential, especially for the liquid facilities.

An active rotation of tenants can be forecasted in the shopping mall segment. On the one hand it is related to the owners' aim to increase the efficiency of their assets, on the other hand with to tenants' necessity to optimize their business. A percentage of turnover tool, which has proven its effectiveness in 2011, is likely to be also used in 2012.

Shopping malls postponed till 2012:

- Shopping centre River Mall (285'000 sq.m)
- Retail and entertainment centre Kaleidoscope (118'700 sq.m)
- Outlet village Belaya Dacha (40'800 sq.m)
- Outlet Fashion House (38'600 sq.m)
- Shopping centre Parus (35'000 sq.m)
- Outlet Brand City (30'000 sq.m)
- Shopping centre at Profsovnaya (7'800 sq.m)

Large projects to be commissioned in 2012:

- Retail and entertainment centre RIO (76'000 sq.m)
- Retail and entertainment centre Otrada (2-4 phases, 55'000 sq.m)
- Shopping centre Moskvorechye (30'000 sq.m)
- Shopping centre Panfilovskiy (25'000 sq.m)
- Shopping centre MC (15 000 sq.m)



Shopping centre Moskvorechye



Retail and entertainment centre RIO



Shopping centre MC

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Shopping centre Panfilovskiy

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Company's offices are located in Moscow, Saint-Petersburg and Kiev.

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Alliance with BNP Paribas Real Estate gives the ASTERA an opportunity to represent the clients' interest abroad and to attract foreign investment to Russian development projects.

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- ✔ Over 6'000'000 sq.m of commercial real estate space have been realized by the consultants of ASTERA company since 1992;
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