



PROFESSIONAL
REAL
ESTATE
SERVICES

Moscow
2011

**MOSCOW RETAIL
REAL ESTATE
MARKET REVIEW
1 quarter 2011**



An alliance member of BNP Paribas Real Estate

MAIN INDICATORS OF MOSCOW RETAIL REAL ESTATE MARKET

According to ASTERA database, the total stock of retail premises in Moscow amounted to 9,966 mln sq.m from which 5.754 mln sq.m is total stock of high quality retail premises of Moscow shopping centers.

Table №1. Main indicators of Moscow shopping centers market at the end of Q1 2011

Total stock of retail premises in Moscow at the end of Q1 2011	
Total stock, mln sq.m	5.754
GLA, mln sq.m	3.149
Commissioned in 1Q 2011	
Total stock, mln sq.m	194.2
GLA, mln sq.m	129.0
Growth of retail area in Q1 2011, %	
Growth of total stock	3.49
Growth of GLA	4.27
Vacancy rate at the end of Q1 2011, %	
Successful shopping centers	3
Average shopping centers	7
Less successful shopping centers	11

Source: ASTERA

Table №2. Main indicators of Moscow street-retail real estate market at the end of Q1 2011

Average rental rates*, \$/sq/m/year	
Within the Garden Ring	2160
Between the Garden Ring and the 3 rd Transport Ring	1450
Between the 3 rd Transport Ring and the MKAD	1000
Average sale prices*, \$/sq/m	
Within the Garden Ring	13900
Between the Garden Ring and the 3 rd Transport Ring	4800
Between the 3 rd Transport Ring and the MKAD	2450
* Rental rates and selling prices depend on many factors like nearness to underground station, area of premises, conditions, etc. that are not reflected in this table.	

Source: ASTERA

SUPPLY

At the end of 1Q 2011 the total stock of high quality retail premises in Moscow increased by 194.2 th.sq.m (GLA – by 129.0 th. sq.m) and accounted for approximately 5.75 mln sq.m (GLA – about 3.15 mln sq.m). Growth of total stock in Q1 2011 amounted to approximately 3.5% (growth of GLA – about 4.3%).

Table №3. Shopping centers commissioned in Q1 2011

Project name	Type	Location	Total area, sq.m	GLA, sq.m	Developer/Investor
AFI Mall	Retail entertainment center	Presnenskaya quay.,2	179 423	114 213	AFI-development
Planernaya	Interchange station	Planernaya st., 8/6	14790 50 380*	14790	CJSC Servest
Total:			194 213	129 003	

Source: ASTERA

*The total area amounts to 50 380 sq.m which on 14 790 sq.m is the total retail area (it is also GLA owing to the project specialization). It is this area (GLA) that calculation includes.

Among the largest projects planned for commission to the end of 2010 and in fact commissioned in Q1 2011, shopping center AFI Mall can be highlighted. The official opening of AFI Mall is scheduled for May 2011 (Q2). Commissioning dates of project «Planernaya» were repeatedly postponed and eventually construction was completed in February 2011. Deadlines for other projects planned for commission in Q1 2011 were extended to Q2 2011 (for example, trade center «Severnoe siyanie» in Butovo).

Table №4. Retail area, commissioned in 2003-2011

Year	Total area, th. sq.m
2003	270
2004	400
2005	600
2006	940
2007	800
2008	790
2009	1 046
2010	1 196
2011, Q1	194,2

Source: ASTERA

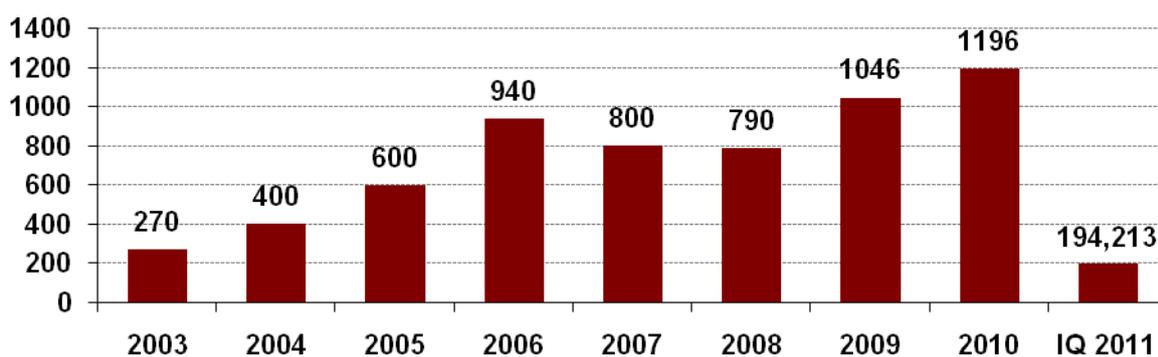
The total area of shopping centers planned for commission in 2011 (GBA) accounts for approximately 1 143 459 sq.m. It is slightly higher than in 2010. Though, commissioning dates for many of these projects were repeatedly postponed, the total area of high quality premises commissioned at the end of 2011 will amount to 900 th.sq.m.

Table №5. The largest projects planned for opening in 2011

Project name	Type	Location	Total area, sq.m	GLA, sq.m
River Mall	Retail entertainment center	Avtozavodskaya st., 16-18	258 000	90 000
Aviapark	Retail entertainment center	Horoshevskoe hw, 38A	260 000	180 000
Kaleidoscope	Retail entertainment center	Himkinsky bverd, 7-23	119 000	41 000
Belaya dacha	Outlet	Yanichkin passage, 4	40 800	38 000
Kursky	Retail center	Varshavskoe hw, 148	39 500	н.д.
Fashion house	Outlet	Leningradskoe hw	38 600	28 800
Favorit	Retail center	Yujnobotovskaya st	37 000	24 000
Parus	Retail center	Novokurkinskoe hw., dstr.17, 1	35 500	25 800
Severnoe Siyanie	Retail entertainment center	Dmitry Donskogo bverd	20 000	12 000
Moscow Gallery	Retail center	Ohotny ryad st, 2	27 859	18 100
North Chertanovo	Retail entertainment center	North Chertanovo	31 000	20 000
Moskvorechie	Retail center	Kashirskoe hw	30 000	19 800
EGO Mall	Retail center	Dejneva av., 23	12 000	7 800
Total			949 259	505 300
Total including area commissioned in Q1 2011			1 143 459	634 300

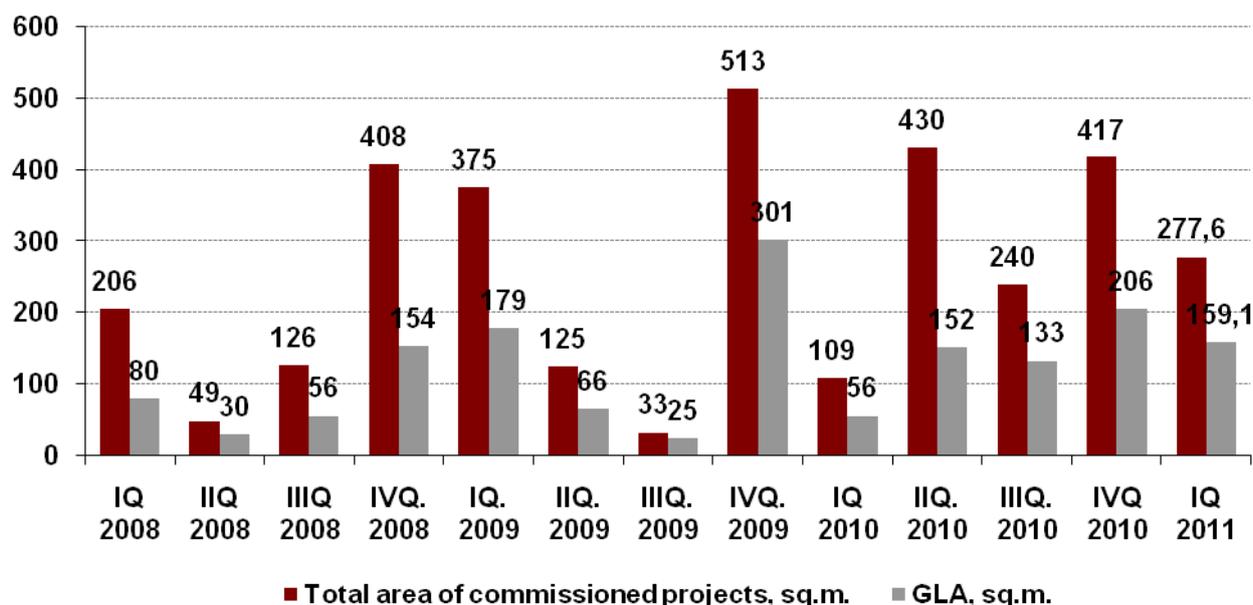
Source: ASTERA

Chart №1. Dynamics of retail projects commission, total area, 2008-2011, th.sq.m



Source: ASTERA

Chart №2. Dynamics of retail projects commission, quarterly, total area, 2008-2011, th.sq.m

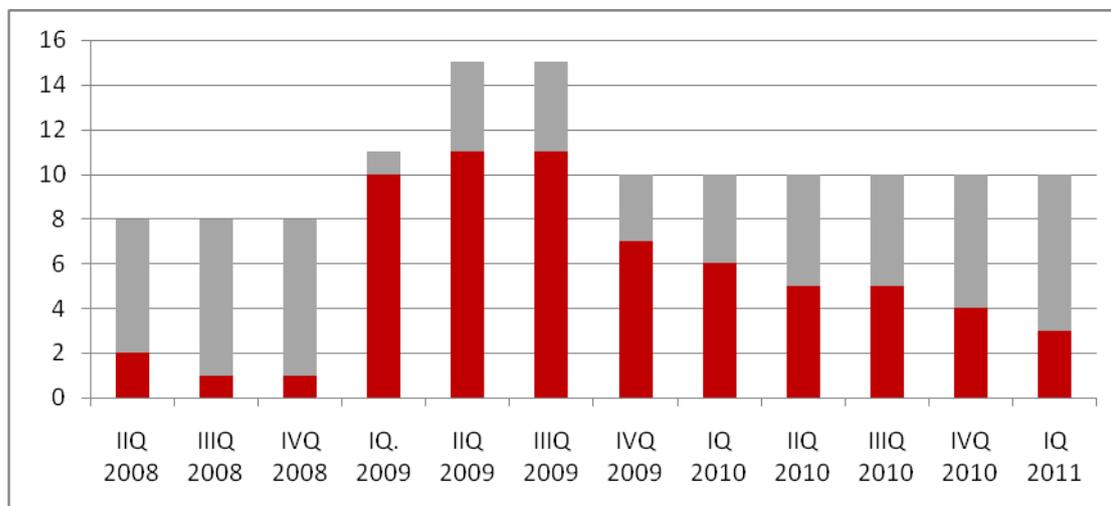


Source: ASTERA

According to chart №2, the highest indicators were reached due to retail premises commissioned at the end of the year that connected with plans of developers for using the annual budget. As a rule, the least supply volume put into operation in the first half of the year (Q1 and Q2, except of 2010, when high indicators were reached due to prolongation of projects planned for commission in 2009).

At present vacancy rate of retail premises of Moscow shopping centers is on average of 3-11%. For successful centers vacancy rate amounts to 7%. In the most successful Moscow shopping centers («Metropolis», «Evropesky», «Airport Gallery», «Kalujsky», «Kapitoly on Vernadskogo hw») there are no vacancy premises (0-3%). Lack of new projects and extension of the deadlines of planned for commission projects resulted to decreasing of vacancy level. Vacancy rate of retail premises at the end of 2011 most probably will account on 4-8% (for the most liquid trade centers - an average of 2%).

Chart №3. Dynamics of vacancy level of Moscow shopping centers (%)



Source: ASTERA

Resume

Compared with the same period in 2010 the total stock of retail premises of Moscow shopping centers increased in Q1 2011. However, due to the market stabilization and the resent decision of Moscow authorities to ban the construction of new projects within the 3rd Transport Ring demand for retail premises should grow. As a result, it must be highlighted that gradual decrease in the level of vacancy and rental growth were observed.

In the next two years, Moscow retail real estate market expects great deficit of supply. Projects planned for commission in 2011-2012 will not be able to satisfy strong demand for premises by retail chains, banks, restaurants, etc. Many retailers face with lack of retail premises. So they had to correct development plans or to develop projects by themselves («Lenta», «Magnit»).

As a whole, it may be emphasized that the shopping centers with well-developed concept and a good location are at an advantage («Evropesky», «Metropolis», «Atrium» и and other centers).

DEMAND

Food retailers continue to be the most active players of Moscow retail real estate market. X5 Retail Group announced plans to open over than 500 new stores in 2011. «Lenta» chain of hypermarkets and «Magnit» from Krasnodar also declared great development plans including not only opening new shops but also development of new hypermarkets. For achievement success «Magnit» is going to buy small local chains in order to open stores in hypermarket and «close to house» formats.

Some foreign operators that left Russian market in the crisis are considering the possibility to enter the market again in 2011. In the first place it can be emphasized: Alexander McQueen, Stella McCartney и Diesel. Banana Republic and Jimmy Choo will be presented in monobrand format for the first time. Hermes and Prada become to operate independently in Russian market. Kazakh chain of future mother clothes «Biba B happy B mother» also has announced plans of development in Russia. In addition the following new brands are going to enter the Russian market: Chilis Grill & Bar, Reiss, American Eagle, Nordsee, Wendy's, Cavalli Clubs, Jaeger, Gavello, Petit Patapon.

Gradual economic recovery after the crisis and lack of finance encouraged tenants to prefer shopping centers rather than street retail format. Within the current projects the most popular are those that are soon scheduled to open or those that are bound to be successful due to good location, parking conditions, convenient public transport provision and interesting concept. First of all operators prefer the most effective projects with the minimum risks for potential tenants. Other shopping centers are not so popular. As a rule these premises are leased to individual retailers by small parts. The time of unpretentious trade centers is gone.

Blocks less than 50 sq.m are still much in demand (59%). Premises from 500 to 1000 sq.m are less in demand (5%). The most attractive for retail chains market is still Moscow (and Moscow region as well).

Table №6. Demand of tenants depending on format of premises in shopping centers, Q1 2011

Format of premises	Demand
More than 1000 sq.m	9%
500-1000 sq.m	5%
250-500 sq.m	8%
100-250 sq.m	7%
50-100 sq.m	12%
Less than 50 sq.m	59%
<i>Total</i>	<i>100%</i>

Source: ASTERA

Increased demand and competition encouraged retail operators to develop new formats:

- The greatest fast-food chain «McDonald`s» opened the first in Moscow kiosk with new menu.
- Children`s clothing chain «Kenguru» opened the first children`s salon interior in Moscow.
- «Euroset» is going to develop large-size stores (1000-3000 sq.m). The retailer already opened the first shop in communication palace format in Q1 2011 (Trade center «RIO» on Dmitrovskoye hw). Area of new shop is 400 sq.m. However, at present an average area of Euroset`s store is approximately 40 sq. m.
- «Gloria Jean`s» announced plans of further development in two formats: stores by 500-700 sq.m in cities with population less than 500000 people and shops by over 1000 sq.m in the largest cities with population more than 1 mln people. First shop in such format will be opened in one of Moscow retail centers «Mega» by the end of 2011.

- Mango abandons its earlier declared plans of development in Russia stores in mini-format (100-150 sq.m). It can indicate that the retailer returns to normal healthy development.

Among the new formats announced to be launch in Russian real estate market in 2011, an outlet mall can be emphasized. The following outlets will be opened in Moscow region this year: «Outlet Village Belaya Dacha», «Fashion House» and re-maded «Waymart».

Resume:

The tendency of increasing activity of retailers in Moscow retail real estate market started in 2010 continues in Q1 2011. Russian and foreign companies suspended their development in the crisis at present approve development plans and make en efforts to develop their chains. Because of decrease in the total stock of Moscow retail premises big retailers expand to other Russian regions. Strong competition encouraged some operators to launch new business formats.

Thereby, in the conditions of gradual economic recovery after the crisis, the first 3 months of 2011 saw an increasing demand for retail properties compared to the end of 2010. Tenant`s preferences were focused on shopping centers. Especially retailers prefer projects with expertly done and realized marketing concept. Though, due to the recent decision of Moscow authorities to ban the construction of new shopping centers in the center retail chain operators become focusing on street-retail format. So demand for street-retail premises also has increased and it has influenced on rental rates.

RENTAL RATES

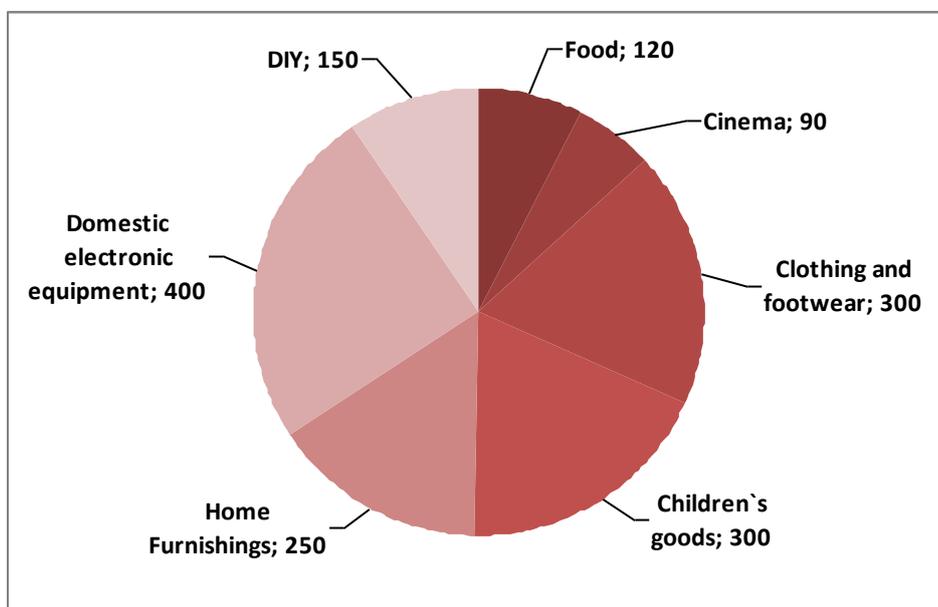
Growing demand for high quality retail premises resulted in decrease in vacancy rates, slow increase in rental rates and expansion of waiting lists for Moscow most attractive shopping centers. In a number of cases, this has led to renegotiation of commercial terms for tenants. The most popular form of rent payment is still fixed form. Rates with a percentage of sales have not become popular in Moscow. As a rule, this method is used in order to draw first tenants in unattractive shopping centers or to involve big Russian and foreign companies as anchor tenants (Inditex, Maratex, McDonalds and other companies).

Table №7. Rental rates depending on area of specialization of anchor tenant in shopping centers, \$/sq.m/year

Area of specialization	Average rental rates	Range of rates
Food	160	120-200
Cinema	105	80-120
Clothing and footwear	475	350-600
Children's goods	375	300-450
Home Furnishings	325	250-400
Domestic electronic equipment	400	300-500
DIY	125	100-150

Source: ASTERA

Diagram №1. Dispensation of rental rates depending on area of specialization of anchor tenants in shopping centers, \$/sq.m/year



Source: ASTERA

The Q1 of 2011 demonstrated an increase in rental rates in Moscow shopping centers both for trade galleries and for anchor tenants. Compared to similar period of 2010 the growth comprised to 10%.

Table №8. Dispensation of rental rates in shopping centers in 2008-2010, \$/sq.m/year

Kind of tenants	Q1 2008	Q1 2009	Q1 2010	Q1 2011
Anchor	125 -500	80-400	80 - 550	80-600
Trade gallery	600 – 6 000	450-3500	450 - 4000	500-5000

Source: ASTERA

Minimum and maximum rates depend on area of specialization of anchor tenant. For example, rental rate for a cinema like an anchor tenant could be 80\$/sq.m/year and for clothing and footwear gallery could reach 600\$/sq.m/year.

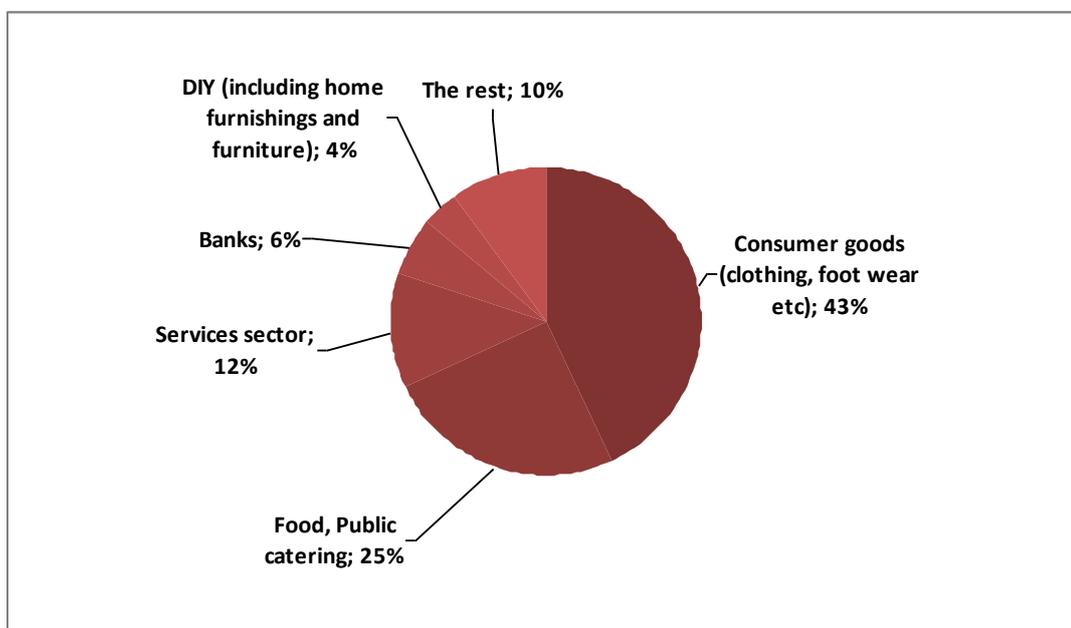
Resume:

In the beginning of 2011, rental rates tended to increase. For most of tenants the growth comprised to 7-10% from the beginning of the year. Due to the limited supply of retail premises in Moscow this trend will continue throughout the year.

STREET-RETAIL

In the beginning of 2011, due to the recent decision of Moscow authorities to ban the construction of new shopping centers in the center retailers focused on street-retail format.

Diagram №2. Demand for street-retail premises depending on area of specialization of tenants



Source: ASTERA

In the Q1 of 2011 street-retail premises for companies specialized on consumer goods (43%) and for fast food operators (23%) were still much in demand.

Table №9. Dispensation of street-retail premises rental rates depending on area of specialization of anchor tenant, Q1 2011, \$/sq.m/year

Area of specialization	Rental rates, \$/sq.m/year
Food	400-900
Public catering	600-2300
Banks	750-2200
Clothing and foot wear	650-1800
Other consumer products	800-1500

Source: ASTERA

Among the significant leasing deals in main corridors of street-retail, the following can be highlighted: restaurant «Chilis Grill & Bar» on N. Arbat st., boutiques «Sergio Bellini» and «Gavello» on Tverskaya st. and Kuznecky Most st. However, some brands leave the retail real estate market («Castro»). «Dikaya Orhideya» announced closing of Believoy bazaar chain and reduction of «Dikaya Orhideya» chain (but the company is going to develop Defile chain).

Average rental rates in main corridors vary from 1200 to 4000\$/sq.m/year. The indicator depends on area of premises, conditions, location, nearness to pedestrian traffic and many other factors.

In the beginning of 2011, declared average rental rate of retail premises located within the Garden Ring accounted for 2160\$/sq.m/year (the maximum rate during the last two years). The recent decision of Moscow authorities only increase demand for top retail premises that has resulted in the growth of rental rates.

Table №10. Retail premises average rental rates* in main corridors of street-retail in Moscow, \$/sq.m/year

Street	Rental rates, \$/sq.m/year
Tverskaya st.	2500-4000
Petrovka st.	2000-3000
Arbat st.	2000-2500
1st Tverskaya – Yamskaya st.	1800-3000
Kutuzovsky av.	1900-3500
Leningradsky av.	1700-2500
Prospect Mira	1300-2000
Maroseyka st.	2000-2100
Bolshaya Dmitrovka st.	1800-2500
Piatnickaya st.	1200-1800
Leninsky av.	1400-1700
Kuznecky Most st.	1800-2500
Miasnickaya st.	1200-2500

Source: ASTERA

* Rental rates depend on location, vision ability, quality of premises, etc. The indicator could significantly differ from average rate and could be corrected during negotiations.

Table №11. Retail premises rental rates in main corridors of street-retail depending on side, \$/sq/m/year

Street	Rental rates, \$/sq.m/year	
	Even side	Odd side
Tverskaya st.	9000	4500
Kutuzovsky av.	3000	2000
Leningradsky av.	2500	1500
Prospect Mira	2500	1800
Leninsky av.	2000	1000

Source: ASTERA

According to ASTERA database (real leasing transactions) street retail premises rental rates for the even side of main corridors exceed 1,5-2 times rental rates for the odd side. It could be explained by intensive pedestrian and transport traffic away from downtown in the evening (the best time for shopping). Also it can be emphasized that due to high rental rates, tenants located on the even side prefer long-term deals (5-7 years). Rather, tenants located on the odd side prefer short-term deals (11 months).

The average street-retail premises selling prices vary from 13000 to 15000\$/sq./m/year at Q1 2011. Compared to 2010 year an increase in demand for street-retail premises amounted to 10%.

Resume:

Due to decrease in the total stock of premises in Moscow shopping centers and more stringent policy of Moscow authorities retailers become focusing on street-retail format. In Q1 2011 retail premises in main corridors were in the strongest demand (here rental rates reached the maximum during the last two years). Declared selling prices were overrated. That's why most of requests for sell (purchase) were not satisfied. The result of negotiations depends on parties` compromise.

TRENDS:

- ✓ Most of retailers has recovered from the crisis and has renewed their development plans. Small volume of new supply and postponing of commissioning dates have resulted to an increase in demand for retail premises (especially for street-retail format).
- ✓ Due to the strong demand for retail premises and further increase of retail trade turnover (as predicted the Department of Commerce, the growth will reach 5% in 2011) further increase in rental rates of shopping centers and street-retail premises is expected.
- ✓ Vacancy level of retail premises in shopping centers has become to decrease. This indicator most probably will amount to 2-3 % for high quality shopping centers at the end of 2011.
- ✓ Premises in main trade corridors were most in demand. Some retailers owing to the lack of retail premises in Moscow region expand to other cities (especially with population over 1 mln people).
- ✓ Compared to previous year activity in purchase of street-retail premises is observed. In spite of increasing demand, potential consumers are not interested in premises with over 7-8-years term of payback. However, most of property owners with 12 term of payback is ready to sell their premises, that's why larger part of demand is still not satisfied.
- ✓ Brands limited development during the crisis returned to the market and became realization of their plans.
- ✓ Competition encouraged many companies to change area of specialization and to develop new business formats.