



# Retail Real Estate Market Review

Moscow, 1st half of 2010



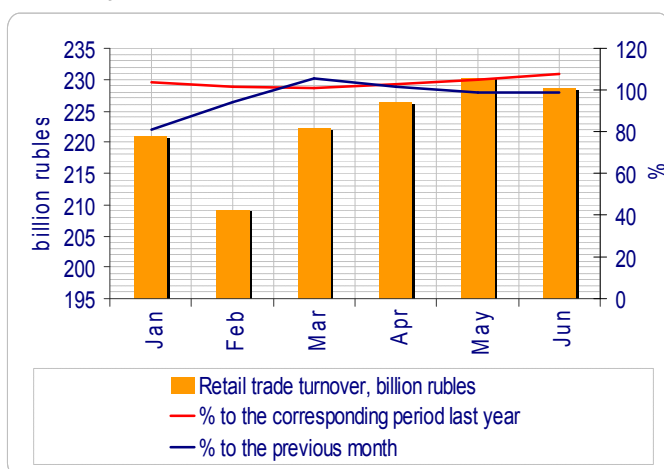
## Moscow Retail Real Estate Market

Table 1. Main indicators of Moscow retail real estate market, 1<sup>st</sup> half of 2010.

Main indicators	2010
Retail trade turnover <sup>1</sup> in January-June 2010, billion rubles	1 348,7
Volume of premises in quality RC as of the 1 <sup>st</sup> half of 2010, k sq. m. of total area (GLA <sup>2</sup> , k sq. m.)	6 490 / 3 686
Commissioned in the 1 <sup>st</sup> half of 2010, k sq. m. of total area (GLA, k sq. m.)	439 / 258
Share of vacant premises, %	10-12%
Announced for commissioning, 2 <sup>nd</sup> half of 2010, k sq. m. GLA	441 / 213

Source: GVA Sawyer's research.

Chart 1. Dynamics of retail trade turnover in Moscow.



Source: GVA Sawyer's research.

Department of consumer market and services of Moscow.

The total supply of premises in high-quality shopping centers<sup>1</sup> on the Moscow market as of the 1<sup>st</sup> half of 2010 has reached 3,686 k sq. m. (GLA).

Provision of Moscow residents with the premises in high-quality shopping centers was 350 sq. m. GLA per 1,000 people.

Retail trade turnover in January-June 2010 amounted to 1,348 billion rubles. The growth rate in comparable prices to the same period last year amounted to 104,6% (see Chart 1).

The share of food products in the structure of retail trade turnover was 50,4%, and the share of non-food products – 49,6%.

Retail trade turnover of food products including all the forms of trade amounted to 680,3 billion rubles, which is 105,8% more than last year in comparable prices.

<sup>1</sup> Excluding public catering

<sup>2</sup> GLA - Gross leasable area.

## 1. Supply

The largest retail center (RC), commissioned in the 1<sup>st</sup> half of 2010, is the Retail and Entertainment Center (REC) “Vegas” (298/180 k sq. m.). Crocus Group is planning to develop the “Vegas” chain and build two large RECs with a retail area of 110 and 131 k sq. m.

By 2012-2013, the deficit in new supply will begin to show; the largest RC projects being under construction now, are planned for commissioning in 2011 (“River Mall” (258/88 k sq. m.), RC “Tverskaya Mall” (113,5/37,5 k sq. m.), “Gud-Zon” (120/71 k sq. m.) and others). There are almost no RC projects to be commissioned in 2012-2013; currently no new construction projects are being announced.

Among the landmark projects, that are planned to be completed by 2012, the Outlet Mall Fashion House on Leningradskoye highway should be noted (40 k sq. m.). GVA Sawyer is one of the co-investors and the developer of the project. As of today, the project design is in progress, the construction shall commence in the spring of 2011.

Chart 2. Dynamics of volume of quality supply, GLA  
Source. GVA Sawyer’s research.

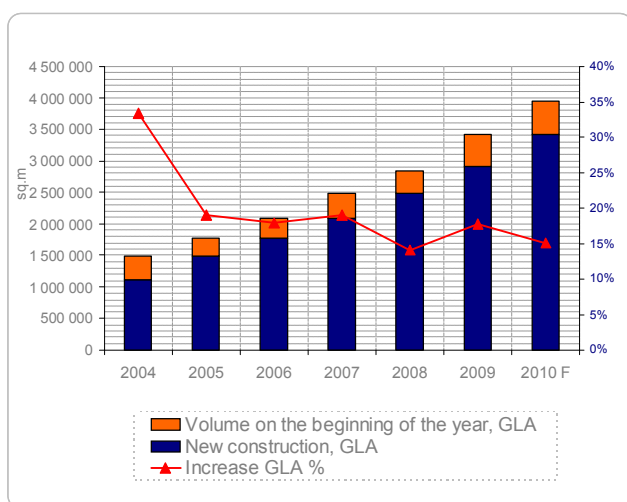


Table 2. List of the largest retail centers commissioned / planned for commissioning in 2010.

Source. GVA Sawyer’s research

Name of retail center	Address	Total area / GLA, sq.m
Retail centers commissioned in the 1 <sup>st</sup> half of 2010.		
Vegas (earlier - Kashirskiy Mall)	South Administrative District, Leninskiy district, settlement Sovkhoz imeni Lenina, 24 km MKAD	298 000 / 180 000
Tvoy Dom - II phase	MKAD, 66 km	57 000 / 26 000
Viva	South-West Administrative District, Severnoye Butovo, Kulikovskaya St.	32 000/ 21 560
RC “Rechnoy vokzal”	North Administrative District, Festival'naya St.	30 000 / 20 000
Azovskiy	South Administrative District, Azovskaya St., 28V	21 715/ 10 373
The largest retail centers planned for commissioning in the 2 <sup>nd</sup> half of 2010.		
REC “Gagarinskiy”	South Administrative District, Vavilova St., 3	200 000/ 70 000
Mall of Russia	West Administrative District, Krasnopresnenskaya embankment, sites 6, 7, 8B	179 400 / 114 000
RC “RIO”	Reutov, 2 km MKAD	175 000 / 90 000
Markos-Mall	North-East Administrative District, Altufyevskoye highway, 70	36 200 / 15 000
Tsvetnoy Central Market	Tsvetnoy bulvar, 15, str.1	36 327 / 16 280
Klyuchevoy	South Administrative District, Borisovskiye prudy St.	26 000/ 13 700

Amid the crisis trade operators are beginning to develop new formats and retailers continue to open their stores in new formats – of smaller size or in the format of discounters, for example: the company Auchan is actively developing the format of “the shop around corner” – “Atak”; Decathlon announces the opening of small format shops under the brand “Koodza”; the company Rigla launches a new project “Mal mala men’she” (“One smaller than the other”) – the shop for moms and kids; in April 2010, Rigla launched a discounter pharmacy chain “Bud’ zdorov!” (“Be in good health!”); Castorama is developing stores under the brand “City Format”; next year, Metro Cash & Carry might launch a pilot small-format store “Metro Punct”

in Moscow; “Okay” is planning to develop a new food store chain of the “hard discounter” format.

Investment activity is increasing in the market. In Q1 2010, the establishment of Prometheus Capital Partners fund should be noted. The company plans to invest in the retail trade and services sector, as well as in the production of food and other consumer goods. The average size of transactions shall be about \$50 million. In Q2 2010, Group of Companies PIK announced its intention to engage a partner to create a real estate fund, which will include commercial real estate properties. Mirland Development announced its readiness to invest \$100 million in the acquisition of new development projects in Russia.

## 2. Financial terms

There is a tendency to an increase in rent rates: in the 1<sup>st</sup> half of 2010, the rates increased by 5-10% for the majority of tenants in shopping centers in Moscow.

Currently, a shift from a fixed rent rate to a percentage of turnover is observed in new shopping centers when sections are leased to large clothes operators. In this respect, the contract provisions include the minimum fixed rate.

Table 3 Range of rent rates for shopping centres' tenants in Moscow, 1 half of 2010

Type	Format	Average area, sq.m	Average range of rates <sup>1</sup> for 1 sq.m per year (Triple net)
Anchor tenants	Food Hypermarket	5 000 - 10 000	100- 120
	DIY Hypermarket	8 000 - 15 000	110-140
	Food Supermarket	1 000 - 2 500	300-400
	Electronics and household appliances supermarket	2 000 - 5 000	350-500
	Clothing department store	2 000 - 5 000	200-500
	Entertainment center, cinema	1 500 - 6 000	120-150
Other tenants	Food court zone	80-150	700- 1 000
	Shopping galleria	400 - 1 500	480-1 500
	Shopping galleria	150 - 250	900- 1 200
	Shopping galleria	80 - 120	1 200 - 2 000
	Shopping galleria	40 - 80	2 000 - 3 000
	Shopping galleria	10 - 30	2 500- 4 500

Source: GVA Sawyer

<sup>1</sup> Due to exchange rates' instability, the conventional unit is the mostly used market measure of value - on an average it is equal to 28 - 32 roubles.

### 3. Demand

During the first six months there has been a demand from retailers for quality vacant premises both in shopping centers and in the street retail. But despite the revival of demand from retailers, the share of vacant premises in the first half remained the same, amounting to 10-12% in Moscow. This was due to the opening of new half-filled shopping centers. In 2009, retail properties commissioned in Moscow were 40-60% filled on average. In 2010, this trend continues, thus forcing the new properties to be opened by phases. For example, in March 2010, a part of the shopping center “Azovskiy” was opened.

In the 1<sup>st</sup> half of 2010, there has been expansion of foreign companies in the Russian market: the American fast-food chain “Burger King”, the American chain of restaurants “Chili’s”, the Japanese clothes retailer “Uniqlo”, the American restaurant giant “Yum! Brands” is buying the Russian fast-food chain “ROSTIK'S-KFC”.

Also, some international retailers have announced their plans to return to the Russian market. The American coffee house chain “Dunkin' Donuts” and the British department store chain “Debenhams” shall start their work again on the Moscow market in 2010.

The Europe's largest retailer of home goods “Kingfisher” announced its intention to pursue “aggressive” policy of investing in Russia, where the market growth is ready to revive. The Investment fund BPT Arista is planning to establish a chain of kitchen furniture stores in Russia.

As GVA Sawyer forecasted, part of small and medium-sized Russian chains, which had been actively developing until 2009 by means of credit funds, continues to leave the market. In Q1 2010, the retail chain “Mir” closed all the 18 stores. In Q2 2010, Enka closed 3 supermarkets “Citistor” (former Ramstor).

The structures of MDM Bank shall become the owners of the controlling shares in the main businesses of Viktor Zaitsev and Vyacheslav Zaitsev – the chain “Tekhnosila”, its core wholesale company “Business PPO” and “Multibank”.

In June, the owners of the Russian largest bookshops chain “Top-kniga” put 90% of the company's shares for sale.

The following should be noted among the largest deals: lease by Family Room (furniture hypermarket) of 5,000 sq. m. in RC “Zolotoy Vavilon Rostokino”; “Holding Centre” (brands Boss, Ceruti, Escada, Lanvin, Marc O'Polo, Givenchy, Versace, Byblos Blu) leased 2,500 sq. m. in RC “Mall of Russia” (Moscow International Business Center “Moscow City”). In April, Auchan hypermarket (5,400 sq. m. - retail area) opened in REC “Filion”, formerly Carrefour was placed there.