



Brief review of retail real estate market in St. Petersburg

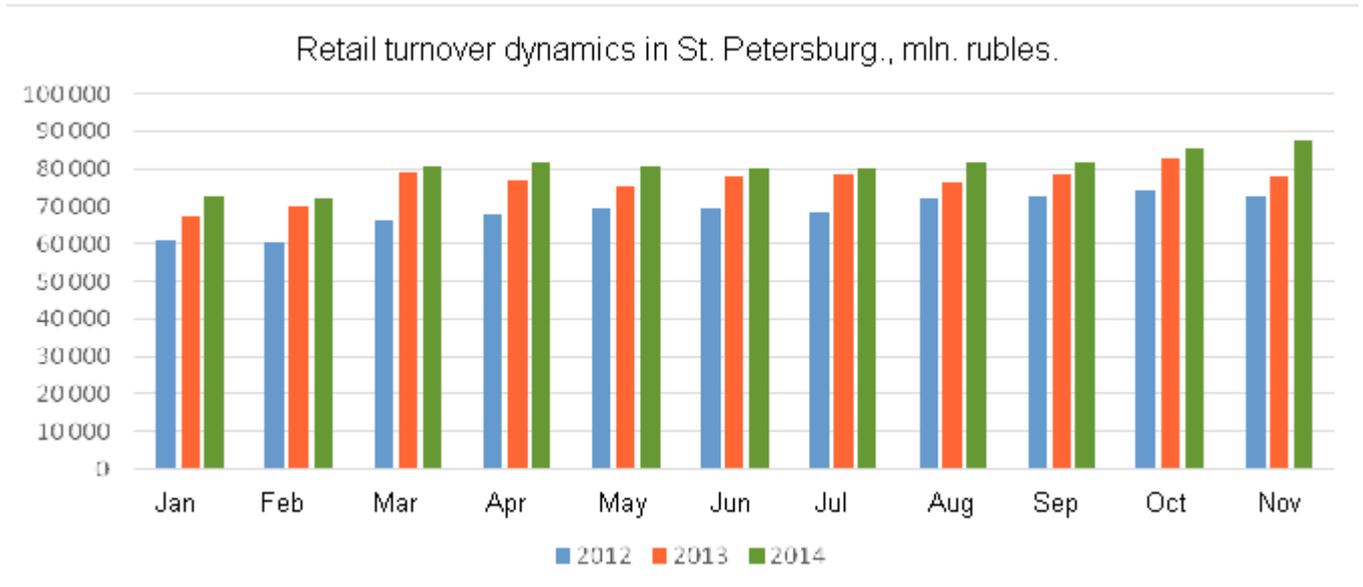
2014

Macroeconomics

The retail turnover in St. Petersburg for the first 11 months of 2014 totalled 885 bln rubles, 5 % up from the same period in 2013 and 17% up from the same period of 2012, with annual inflation at 13.3%. It is obvious that the retail turnover growth has been slowing down in comparison to 2011-2013.

Diagram. Retail turnover dynamics in St. Petersburg., mln. rubles.

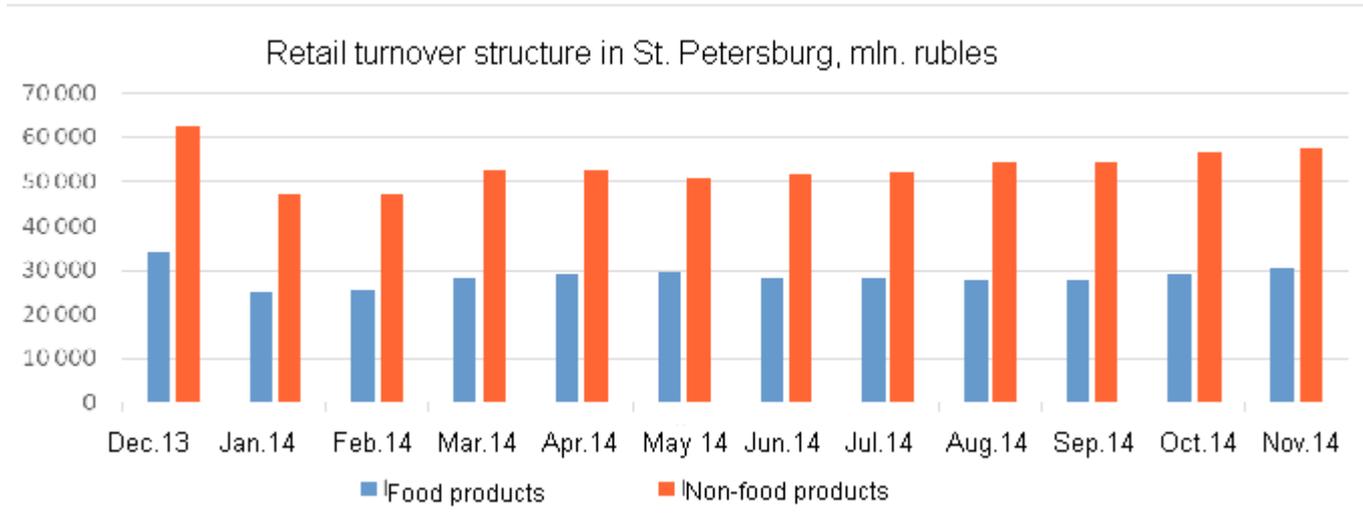
Source: Petrostat



Percentage of non-food goods turnover stays at the level of 66%, thus the structure of retail turnover has not changed much since 2013. Noteworthy is the fact this indicator for Moscow is 49% while the average for Russia is 59%.

Diagram. Retail turnover structure in St. Petersburg., mln. rubles.

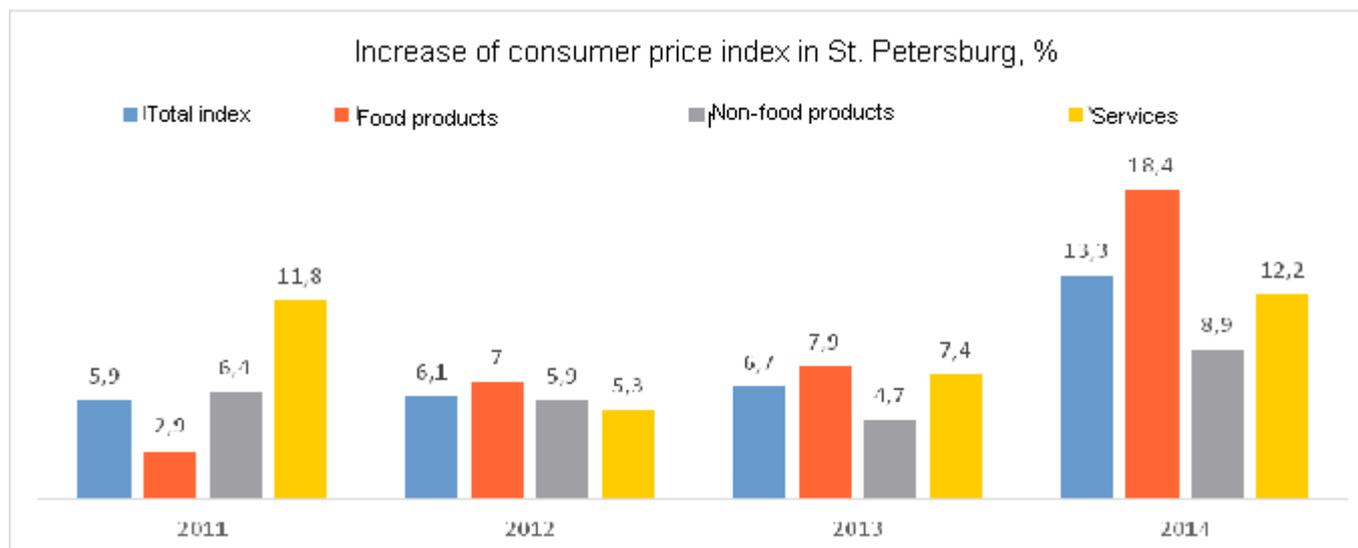
Source: Petrostat



Consumer price index in December 2014 was 102.8% against that of November. The CPI growth in 2014 amounts to 13.3%, with 18.4% growth in food sector and 8.9% in non-food sector. This is the most dramatic price increase since 2008. The rate of increase of consumer prices has accelerated significantly on the year-to-year basis.

Diagram. Price increase in St. Petersburg

Source: Petrostat



According to Petrostat (Regional Department of the Federal Service of State Statistics) for the first 10 months of 2014 the population of St. Petersburg has grown by 1.3% and reached 5.18 mln. The average nominal wage has grown by 11.1% and now stands at 40,500 rubles.

Thus, we can see that the price increase outpaces the increase of personal income, which will inevitably lead to further slowdown of the retail turnover growth.

Supply

Main market trends:

- Decline of development activity as a result of market saturation and decrease in occupier demand
- Increase of the number of projects for reconstruction/reconcept
- Introduction of Outlet Centre as a new format of retail

The total gross leasable area in St. Petersburg for 2014 was 3.8 mln. sq.m.

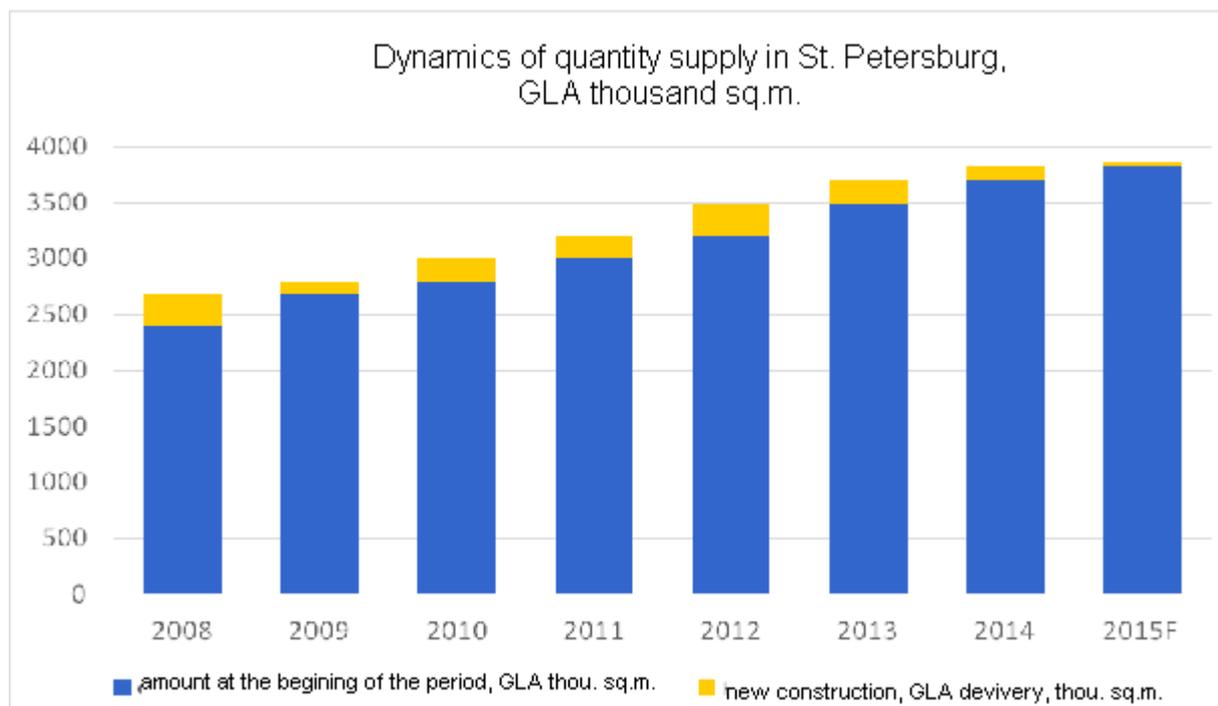
Table. Main indicators of retail market in St. Petersburg in 2014

Source: GVA Sawyer

	2013	2014
GLA at the end of the year, thou. sq.m.	3 698	3 826
New stock, GLA thou. sq.m.	220	128
Vacant space year end, %	7	5

Diagram. Dynamics of quantity supply in St. Petersburg, GLA.

Source: GVA Sawyer



The retail stock delivered in 2014 totalled 119,000 sq.m., which is the lowest figure since 2009. The amount of space delivered has fallen by 45 % against that of 2013 and by 67 % against 2012.

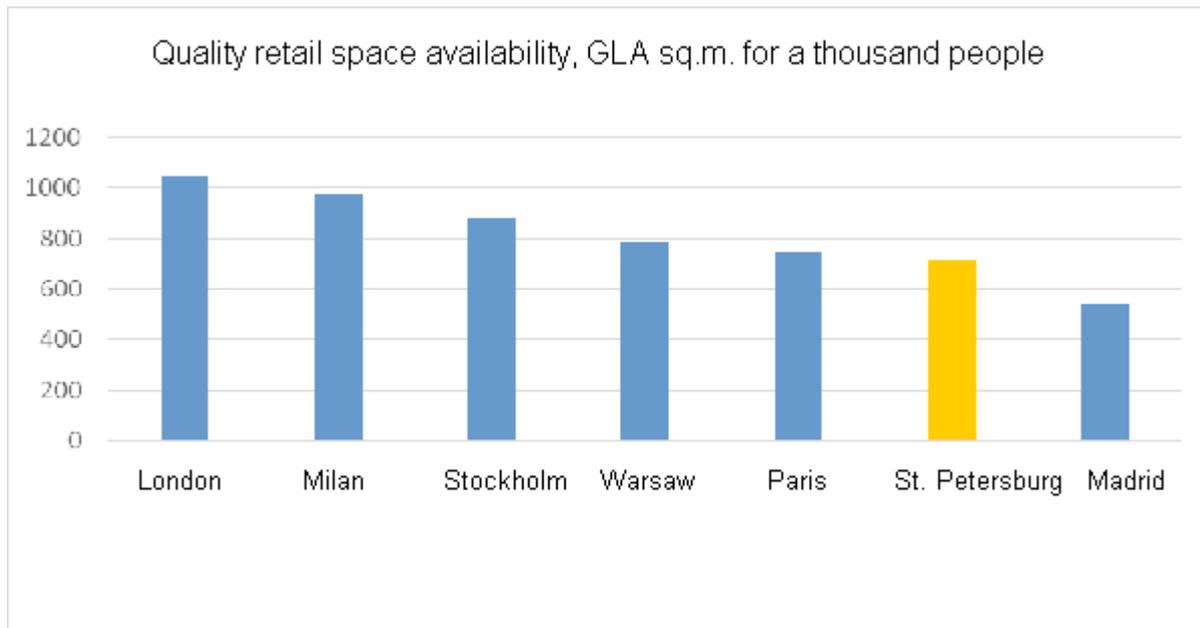
Table. Key objects, delivered in 2014.

Source: GVA Sawyer

Name	Address	Total square	GLA	Developer
Монпансье (Монпансье)	Ul. Planernaya, 59	58,500	30,500	Industry Group (Construction Administration 1)
Торговый Двор (Торговый двор)	Moskovskoe shosse, 7	20,940	16,650	Torgovy Dvor
Адмирал (Адмирал)	Kirpichny per., 1	20,000	11,200	Sovetnik (PetroMir Holding)
Европолис (Европолис)	Polustrovsky pr., 84	141,700	60,500	Fort Group
Total:		241,140	118,850	

The openings of all the objects besides the Europolis Mall were postponed since 2013. Quality retail stock in St. Petersburg for 2014 is 745 sq.m. per thousand people, being the highest among the million-cities of Russia. The supply of quality retail space in St. Petersburg is close to the average for the European capitals, which proves market saturation.

Diagram. Quality retail space availability in Europe.
Source: GVA Sawyer



2014 landmark projects

The key project of the year is a new FORTGROUP project – shopping and entertainment centre Europolis in Vyborgsky District of St. Petersburg. 95% of space is already rented. The take-up by the opening reached 80%.

Photo. Europolis Mall
Source: GVA Sawyer



The mall is situated rather conveniently, by the metro station Lesnaya. The specialty of the concept is creation of a unique concert venue.

The architecture is quite modern, with a classic dumbbell loop reminding of the shopping mall “Galereya”. FORTGROUP calls Europolis its flagship project.

FORTGROUP is still one of the largest owners of retail spaces in St. Petersburg with the portfolio of 560,000 sq. m GLA. But the leader here is Adamant with the portfolio exceeding 750,000 sq. m.

The location of “Monpansie” shopping mall isn’t so convenient – three kilometers from the metro station Komendantsky Prospekt. By the opening only 40% of space was leased-up, mostly by anchors: Prisma, McDonalds, Deti, Mirage-Cinema, Detsky Mir, fitness club “Art of Fitness”.

Torgovy Dvor and Admiral were not a success either as by the opening less than 50% of space was leased.

Future stock. 2015 projects.

It is estimated that in 2015 there will be less than 50 thousand sq.m. of new available spaces, which is approximately 40% of 2014 new supply.

Table. New shopping and entertainment centres due to be opened

Source: GVA Sawyer

Name	Address	Total square	+ GLA	Developer
Piter-Raduga, phase II	Pr. Kosmonavtov, 14	42 000	27 000	Ralmir Holding B.V.
Outlet Village Pulkovo phase I	Pulkovskoe sh., 60	15 000	10 800	Hines
Shopping Mall “U Krasnogo mosta” as a part of multifunctional centre	The Moyka nab., d. 73-79	35 000	9 000	BTK Development
	Total:	92 000	46 800	

The shopping mall “U Krasnogo Mosta” was to be opened in 2012, but the opening has been postponed several times since then. The project involves reconstruction of the building of the second half of XIX – beginning of XX centuries on the embankment of the Moyka river.

Another landmark event for St. Petersburg will be the opening of the first phase of **Outlet Village Pulkovo** (15,000 sq.m. GLA) on Pulkovskoe shosse in 2015.

Two more outlet centres were to open in 2014: **Fashion House** by Fashion House Group on Tallinskoe shosse and **Villa Outlet Center** by O’Key Group on Primorskoe shosse. The openings of both were postponed till 2015.

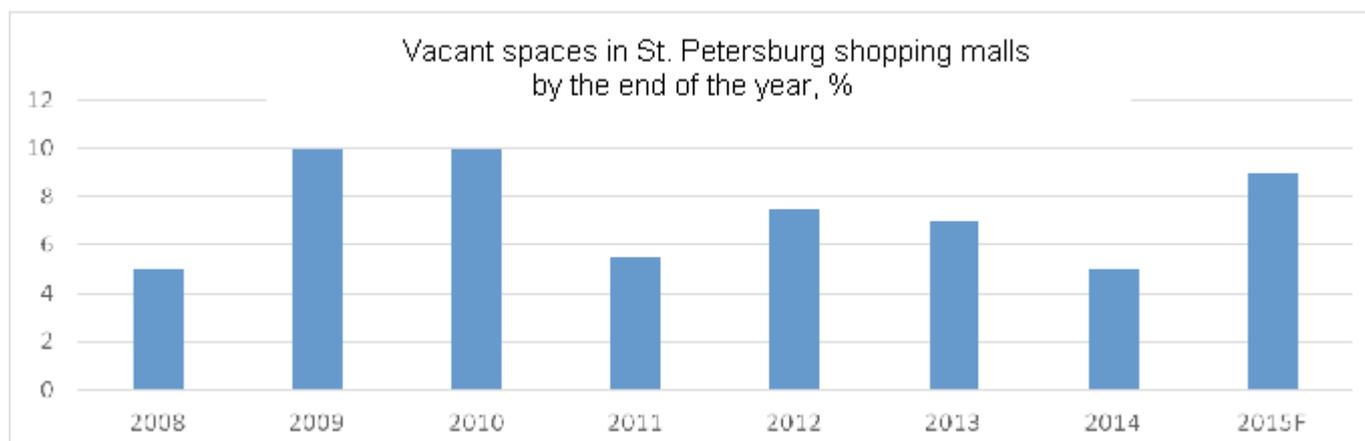
The Fashion House project includes 120 shops at 20,700 sq.m. Total investment is 70 mln euros. The delivery is planned for the end of 2015, but most likely it will be postponed again.

Villa Outlet Center is the reconcept Podsolnukh shopping center, by O’Key Group. It was to open at the end of 2014, but the opening was postponed till spring 2015. The total square will be 35,500 sq.m., GLA – 23,400 sq.m. The amount of investment is 150 mln. rubles.

Bigbox plans to open its first hypermarket-discounter in the first quarter of 2015. The brand name of the new chain is “Ryady”. Besides that, the company considers opening of four more hypermarkets in 2015. The projects on Pulkovskoe shosse and on Shafirovsky prospect are already under construction, the construction of the one on Murmanskoe shosse has just begun and the construction of the forth will start soon on Tallinskoe shosse. The total square of the first “Ryady” hypermarket will be 16,000 sq.m., the GLA will be 14,000 sq.m.

Diagram. Vacant spaces in St. Petersburg shopping malls

Source: GVA Sawyer



Demand

Main market trends:

- Whole number of Mid-market retailers closed down and/ or curtailed their development plans
- The only type of shopping centres that is actively developing is hypermarket.
- Rotation of occupiers within in high-street retail.

Due to unstable market situation and reduction of purchasing powers several brands have announced a close down of their shops: Seppala (Stockmann), Gerry Weber, River Island (Maratex), OVS (Maratex), Esprit (Maratex), New Look (Delta). The French Camaieu chain considers closing. Adidas has made public their decision to cut down significantly on its plans for expansion and even to close some of the operating ones. The footwear retailer Alba has also announced that they will limit development plans.

SOK Group will freeze Prisma hypermarket chain development.

Hypermarkets prevail among the types of shopping malls that are actively developing:

- At the beginning of 2014 Kesko purchased a land plot on Parashutnaya ulitsa and in October already opened there hypermarkets K-ruoka, K-rauta and Intersport. The total square of mini retail park is 24,000 sq. km.
- Lenta is planning to open a hypermarket with the total square of 12,000 sq.m. on Chernigovskaya ulitsa.
- New O'key-Express supermarket is to open soon at the junction of Shuvalovsky prospect and Parashutnaya ulitsa.
- As it has been mentioned already, it is planned to open a new hypermarket chain Ryady in 2015.
- The construction trade company Petrovich purchased a land plot on Sofiyskaya ulitsa and is now planning to build a shop with the total square of 2,000 sq.m. and warehouses.

The competition among fashion-retailers has become more intense, which leads to tenant rotation in high street format

- The first boutique of the lingerie retailer Agent Provocateur opened in St. Petersburg at Nevsky Prospect 117, near Babochka and Chanel boutiques.
- Prada boutique opened on Bolshaya Konushennaya between Dior and Louis Vuitton.

- Love Republic, Armani Jeans, Ecco, H.E. by Mango were opened in Galereya shopping and leisure centre.

Financial situation

Main market trends:

- Switch to ruble denomination of rents.
- "Tenant market": decrease of rents, turnover rents prevail

Considering that in 2015 the amount of vacant spaces in shopping centers is expected to increase and the consumer activity – to decrease, the average rents are estimated to fall by 5-15 %.

Table. Rental rates fluctuation

Source: GVA Sawyer

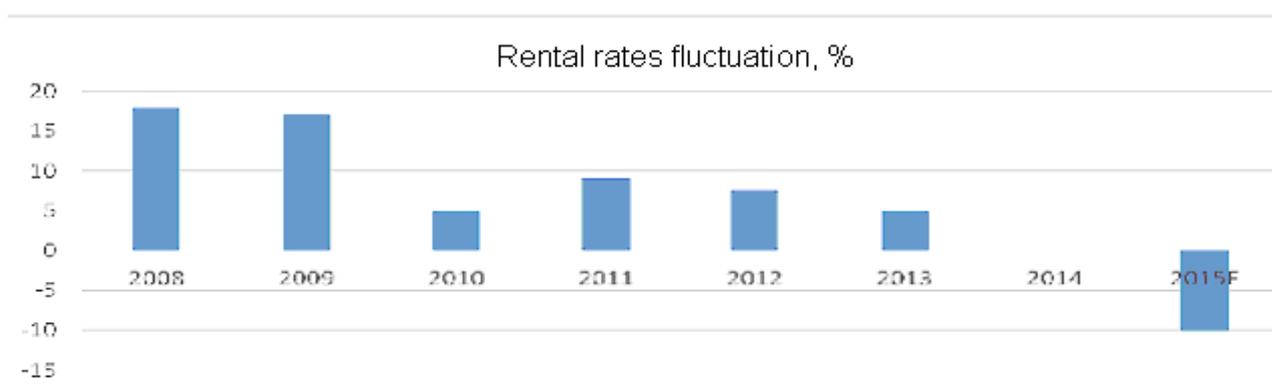


Table. Range of rental rates for shopping mall operators in St. Petersburg, over 2014, ruble per sq.m. per annum (triple net)

Source: GVA Sawyer

Type of occupier	Total square, sq.m.	Rents range, ruble per sq.m. per annum (triple net)
Anchor occupiers		
Hypermarket	> 5 000	3 500 - 7000
DIY	> 3 000	3 500 - 5 000
Electronics	> 3 500	6 000 - 9 000
Sport and leisure	> 4 000	3 800 - 5 300
Clothing	1 200 - 2 500	6 000 - 11 000
Entertainment	> 1 000	4 000 – 6 500
Cinema	> 3 000	3 500 - 6 000
Household goods	1 000 - 2 500	5 000 - 7 000
Children's goods	1 000 - 2 000	7 000 - 12 000
Standard type		
Supermarket	1 000 - 3 500	9 000 - 15 000
Electronics	1 000 - 3 000	7 000 - 12 000
Sport and leisure	800 - 1 200	6 000 - 9 000
Clothes	400 - 1 000	9 500 - 18 000
Clothes	< 400	21 000 - 65 000

Type of occupier	Total square, sq.m.	Rents range, ruble per sq.m. per annum (triple net)
Perfumery and cosmetics	300 - 500	20 000 - 50 000
Perfumery and cosmetics	50 - 100	40 000 - 65 000
Public catering	200 - 1 000	15 000 - 25 000
Food court	40 - 100	35 000 - 65 000
Children goods	100 - 500	20 000 - 40 000

Operating expenses in shopping malls totals 3,000-5,000 rubles per sq.m. annually.

GVA Worldwide

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