JONES LANG LASALLE®

Real value in a changing world

Russian *Retail* Market Overview

Q2 2009

Demand: Consumers and retailers

Consumer trends

According to AC Nielsen, the consumer confidence index increased 7 b.p. in May (to 82 from 75 in March) for the first time since the beginning of the crisis. Nevertheless, higher unemployment and lower income (see the table below) have lead to a decline of consumer demand. Russians continue economizing on purchases. The number of respondents who consider the next 12 months as not the best time to make large purchases increased to 78% in May from 73% in March. Not surprisingly, furniture purchases, home repairs and holiday trips became less popular.

Occupier trends

Global retail chains continue their expansion in Russia. The first **Carrefour** hypermarket has opened in Moscow's Filion SEC in June. The retailer plans to open two more stores, in Krasnodar and Lipetsk, and to establish local production of its private label goods by the end of the year. **Auchan** will open nine hypermarkets in Moscow and regions (Omsk, Samara, Rostov-on-Don, Kaluga, and Novosibirsk) in 2009-2010 and will likely enter a new region, Tatarstan. **Castorama** plans to launch seven hypermarkets in Moscow and regions. **Wal-Mart** continues to express its interest in the Russian market. Its entrance will likely occur through a purchase of a local chain.

New foreign retailers enter the market. British **Debenhams** will have its second coming by opening through a franchise – in Mall of Russia and in the Summit multi-functional centre (the former Minsk hotel, currently under reconstruction). Meanwhile **IKEA** reduced its expansion plans due to bureaucratic problems with regional authorities in Omsk and Samara.

Russian retailers react to market challenges in different ways. **X5 Retail Group** will increase the number of its discount stores, Pyaterochka. On the other hand, W&B retailer **Mir** closed its shops in some regions due to low sales and high rental rates, opting to halt its expansion.

Retailer demand

Small and mid-size retailers, who have usually paid the highest entry fees and rents, now have a **good opportunity to open a store** in a shopping centre or on a street which was unavailable and unaffordable before the crisis. Additionally, retailers can get a discount for the first two years of operations in new SCs.

The demand from retailers began to recover in Q2 2009. **Cosmetics and clothes retailers were** the most active tenants. As the majority of areas (43%) in retail galleries of Moscow SCs are occupied by fashion and apparel stores and another 7% - by health and beauty products, the demand for premises in retail galleries will hold up rather well.

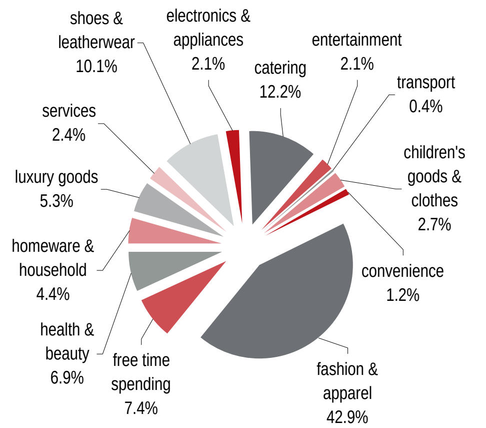
Macroeconomic factors affecting consumer demand

Indicator	Russia 2008	Russia H1 2008	Russia H1 2009	Moscow 2008	Moscow H1 2008	Moscow H1 2009	St. Petersburg 2008	St. Petersburg H1 2008	St. Petersburg H1 2009
Average monthly personal income, USD	611	551*	565**	1,388	1,438*	1,309**	720	722*	664**
Real disposable income growth, % YoY	5.0	9.6***	-0.6***	-18.2	-0.6***	7.1***	-11.1	2.6***	-7.9***
Retail turnover, USD bn	557	486*	512**	95	90*	85**	23	20*	21**
Real retail turnover growth, % YoY	13.0	16.0	-3.0	5.3	9.7	-5.6	11.2	14.8	-6.6
CPI , % YoY	13.3	15.1	11.9	12.3	-	-	14.4	-	-

* June 2007 - May 2008
** June 2008 - May 2009
*** Jan-May 2008 / Jan-May 2009

Unemployment in Russia, % of labour force

Moscow SC retail gallery area occupiers by profile



Source: Rosstat, Mosstat, Jones Lang LaSalle

Supply

The following retail **projects** were **delivered in Q2 2009**:

- Filion SEC in Moscow with 55,000 sq m GLA;
- Unimall SC in Moscow Region with 21,180 sq m GLA;
- Zolotoy Vavilon SEC in Rostov-on-Don with 52,000 sq m GLA;
- Megakompleks Moskovskiy SC in Samara with 60,000 sq m GLA.

Several changes characterize **new shopping centres openings**. These days only 40-50% of retail gallery stores are ready to open their doors at the SC launch, and anchor tenants open one month later. This is due to financial difficulties of retailers, which delay the fit-out works.

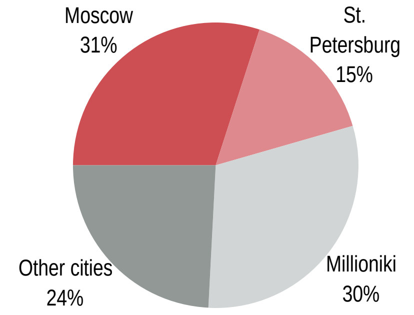
Russia still has a **large SC pipeline** (see the table below): Moscow, for example, will have record-high completions, with one mega scheme, Zolotoy Vavilon Rostokino (170,000 sq m GLA), and a few smaller ones to start operating before the year end. However, these openings can be delayed. Although 4,500 sq m of premises in Mall of Russia have been leased out to Inditex, one of the largest fashion retailers, SC opening is still doubtful. Moreover, the lack of financing forces some **developers to freeze their projects at advanced stages**.

Due to declining consumer incomes, several municipal authorities (in Moscow, Yekaterinburg, Nizhny Novgorod) decided to **postpone the reconstruction of markets and bazaars into shopping centres**. As a result, the share of unorganized retail premises in Russia increased to 13.5% in June 2009 from 12.9% in June 2008.

Moscow project pipeline

Name	Year of entry	GLA, sq m
Favorit Centre	2009	24,000
Marcos Mall	2009	36,200
Kluchevoy	2009	13,000
Viva Mall	2009	24,000
Zolotoy Vavilon Rostokino	2009	170,000
Azovskiy	2009	15,000
Mall of Russia	2010	114,000
SEC on Dushinskaya Str.	2010	110,000
GoodZone	2010	70,000
Kaleidoskop	2010	35,000
Parus SEC	2010	24,800
Rechnoy SEC	2010	60,000
Central Market (Tsvetnoy)	2010	22,000
Kashirskiy Mall	2010	140,000
Gorod II	2010	33,140
SEC on D.Donskogo Blvd.	2010	12,250
Ordzhonikidze	2010	70,000

SC stock distribution across Russia



Q2 2009 supply snapshot

		Moscow	St.Petersburg	Millioniki	Other cities	Russia
Shopping centre stock	000 sq m	2,448	1,258	2,479	1,960	8,145
Pipeline of SCs for 2009-2011	000 sq m	1,190	400	1,696	1,527	4,813
Shopping centre stock per 1,000 inhabitants	sq m	214	276	195		
Completions, Q2 2009	000 sq m	55	0	133	0	188
Completions YtD	000 sq m	214	10	311	120	431
Number of shopping centres		65	38	75	81	259

Source: Jones Lang LaSalle

Market balance / Rents

Rents

Rents for most tenants in Moscow remained stable in Q2 2009after a strong correction in Q1 2009. However, prime rents went down by about 20%. Rental rates for anchor and mini-anchor tenants in St.Petersburg are declining in the majority of shopping centres. At the same time, prime rents for tenants in retail galleries remained unchanged at USD 1,800 per sq m per year in Q2 2009.

Rents for anchor tenants are now often set in RUB, and for others in USD or EUR with the option to fix the exchange rate. The turnover rent appeared as an alternative in new leasing contracts. However, it is used mainly by international tenants. In response to the current economic situation, developers also offer an option of rent reduction for the first one or two years in new SCs ("step-up rent"), and owners of some existing SCs are ready to reduce rental rate for one year.

Vacant premises

In Q2 2009 about 8% of Moscow and St.Petersburg SC areas were vacant, compared to 3% in the previous quarter. The occupancy rate in high quality shopping centres still reaches 100%, as the demand for the best quality retail premises – Evropeisky, MEGA Tyoply Stan, MEGA Khimki – remains high, protecting rents. More vacant areas appear in SCs of lower quality, with their vacancy rates approaching 15-20%. Due to the lack of new retailer demand, some new SCs with relatively good concept – Spektr, Vremena Goda, RIO Grand – have high vacancy rates.

Market outlook

Most projects currently under construction will be completed, albeit with delays caused by financing difficulties. Others will be frozen or delivered in phases. We expect the vacancy rate to increase in 2010 because of the large completion volume, with the majority of projects being delayed from previous years.

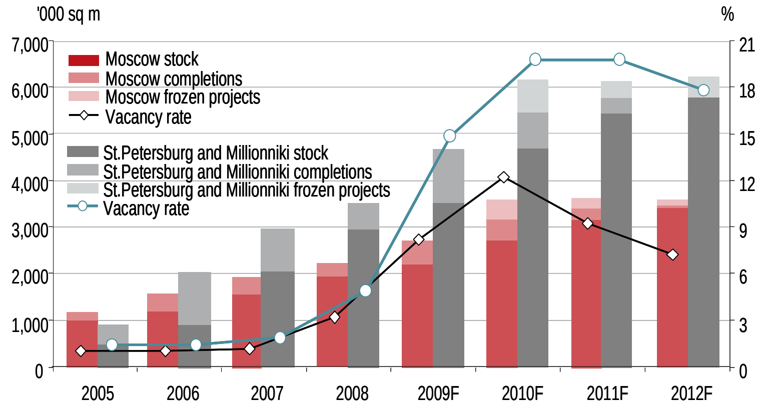
Q2 2009 SC rents and yields

Indicator		Moscow		St. Petersburg	
		min	max	min	max
Prime SC base rent	USD/sq m/year	2,000	3,000	1,000	1,800
Average SC base rent	USD/sq m/year	350	1,000		
Prime street retail base rent	USD/sq m/year	2,100	3,000		
Prime SC yield	%	12.5	13.0	13.5	14.0
Vacancy rate	%	8.0		8.0	

Shopping centre rents by profile, Q2 2009

Profile	Area (sq m)	Moscow	St.Petersburg
Hypermarket	>5,000	100-140	80-120
White and brown	>2,500	190-300	150-200
	<2,500	410-550	n/a
Sporting goods	>3,000	120-250	150-250
	<3,000	180-400	250-1,650
Cinema	>3,000	100-150	100-170
Entertainment	1,500-7,000	100-120	90-140
Perfume and cosmetics	300-500	1,200-1,800	600-1,200
	<300	1,500-2,200	1,000-2,000
Goods for children	<300	600-1,200	580-800
DIY	8,000-15,000	120-150	120-200
Food courts	40-90	1,000-2,000	700-1,000
Restaurants	250-600	400-600	300-580
Fashion and apparel	40-200	800-3,000	650-2,000
	200-1,000	500-800	420-650
	>1,000	% of turnover - 400	240-500

Market balance



Source: Jones Lang LaSalle

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