

RETAIL REAL ESTATE MARKET IN RUSSIA

- High development activity. Development of decentralized regions including Siberia and Far East.
- Quality shopping centres are still in high demand displaying 1.5–3% vacancy rate.
- Active new international retail brands expansion. Such retail operators as Superdry, Julius Meinl café, Cofix, etc have already opened or announce plans on opening flagship stores in Russia.
- Russian ruble rental rates increase registered first time since 2013.

MOSCOW. RETAIL MARKET

Supply volume of quality retail real estate in Moscow went up by more than 40% over the past 3 years. A number of new shopping centres were opened with a significant share of vacant premises (in some cases – up to 90%). The rapid growth of the market volume was one of the reasons for supply and demand imbalance and led to an inertial increase in the vacancy rate to 13.9% in Q3 2016. It shall be pointed out that the upward market trend emerging in the beginning of this year continues to persist: take-up level remains high (usually the vacancy rate is reduced to 10% during the year in new quality shopping centres).

Interest in quality retail facilities from international chain operators is sustained (more than 170 new brands entered the Moscow market in 2014–2016), which is among positive trends indicating a gradual recovery of the retail real estate market of the capital together with a moderate rental increase, recorded for the first time since 2013.

SAINT PETERSBURG. RETAIL MARKET

Two retail projects with total area of 159.9 thousand sq m (GLA – 85.8 thousand sq m) were launched at the St. Petersburg retail real estate market in 2016. Interestingly, the opening of these shopping centres took place

Key indicators*

Shopping centres total stock (GBA / GLA), million sq m	11 / 5.68 (8.9% ▲) / (7.7% ▲)**
Opened in Q1–Q3 2016 (GBA / GLA), thousand sq m	894.7 / 403.2
Scheduled for opening in Q4 2016 (GBA / GLA), thousand sq m	425 / 184.4
Vacancy rate, %	13.9 (0.8 p. p. ▲)**
GLA in quality shopping centres per 1,000 citizens	456 (5.7% ▲)**

* The table refers only to high quality, professional retail properties. A professional shopping centre is a standalone building or a group of buildings sharing the same architectural style, concept and under common management, with a total area over 5 thousand sq m

** Change compared to Q4 2015

Source: Knight Frank Research, 2016

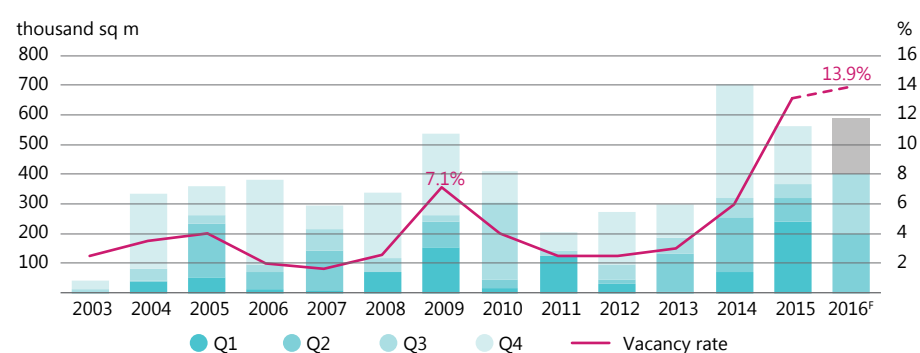
Commercial terms in modern shopping centres in Moscow

Tenant profile	Fixed rental rate, RUR/sq m/year	retail turnover, %
Hypermarket (>7,000 sq m)	3,000–10,000	1.5–4
DIY (>5,000 sq m)	3,000–9,000	4–6
White & Brown (1,300–4,000 sq m)	6,000–18,000	2.5–5
Sporting goods (1,000–6,000 sq m)	6,000–10,000	6–8
Goods for children (1,000–2,000 sq m)	6,000–15,000	8–12
Apparels (400–1,000 sq m)	0–40,000	4–14
Footwear (300–500 sq m)	0–45,000	7–12
Entertainment (1,000–4,000 sq m)	0–8,000	9–12
Food court	45,000–150,000	12–15
Restaurant	0–25,000	10–12

* Commercial terms had been discussed at negotiation process

Source: Knight Frank Research, 2016

Volume of new shopping centres opened and vacancy rate dynamics. Moscow



Source: Knight Frank Research, 2016

in Q3 2016, while no growth of new supply was registered in the first half of the year.

The total volume of quality retail real estate of St. Petersburg is currently 4.7 million sq m (GLA – 2.9 million sq m). The availability of retail space is 557 sq m/1,000 citizens, which is 1.2 times higher than in Moscow. Also worth noting is that there has been a decline of development activity in St. Petersburg since 2013: the volume of quality retail premises

put on the market for a three-year period is comparable with the volume of new supply of 2013.

Today, the retail real estate market of St. Petersburg is highly competitive and, therefore, new development projects will be successful only if they possess unique characteristics (location, format, tenant mix). The downward trend of the volume of new construction will be continued in the medium term.

THE RETAIL REAL ESTATE MARKET OF RUSSIAN REGIONAL CITIES

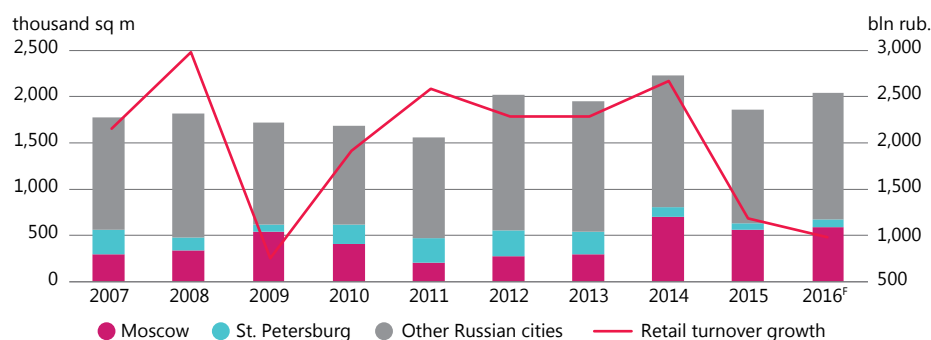
The total supply of quality retail space in Russia exceeded 40 million sq m following the results of Q3 2016 (GLA – 25.1 million sq m). The share of regional cities accounted for about 60% of the total volume of retail space in Russia – 15.17 million sq m (GLA).

According to preliminary data, the market of Russian regional cities will be expanded by the commissioning of 39 new retail projects along with the increase of space in five major operating centres. The five major shopping centres already opened are – MegaGrinn Shopping and Entertainment Centre (Kursk; GLA – 129 thousand sq m), Silver Mall Shopping and Entertainment

Centre (Irkutsk; GLA – 57 thousand sq m). The following projects will be launched in Q4 2016 – Good'Ok Shopping and Entertainment Centre (Samara; GLA – 115 thousand sq m), Galaktika Shopping and Entertainment Centre (Barnaul; GLA – 65.4 thousand sq m) and Riviera Shopping and Entertainment Centre (Lipetsk; GLA – 64 thousand sq m).

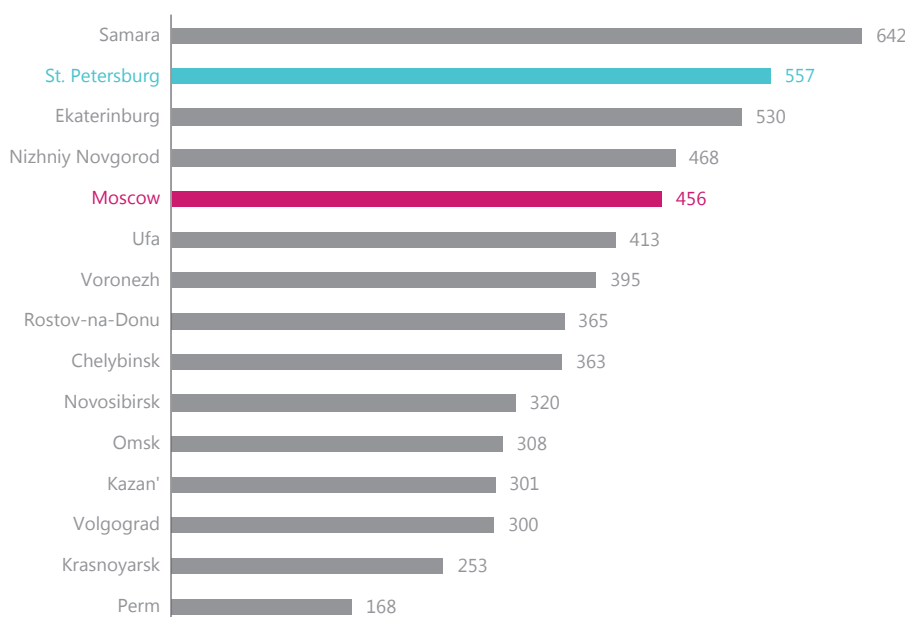
It should be pointed out that the market of the Far Eastern Federal District has undergone impressive development this year with the opening of Sedanka City Shopping and Entertainment Centre (Vladivostok; GLA – 45 thousand sq m) and Druzhba Shopping and Entertainment Centre (Vladivostok; GLA – 28.5 thousand sq m). The launch of the third phase of Ostrov Shopping and Entertainment Centre is also expected in the district (Blagoveshchensk).

Retail real estate market of Russia. Volume of new shopping centres opened



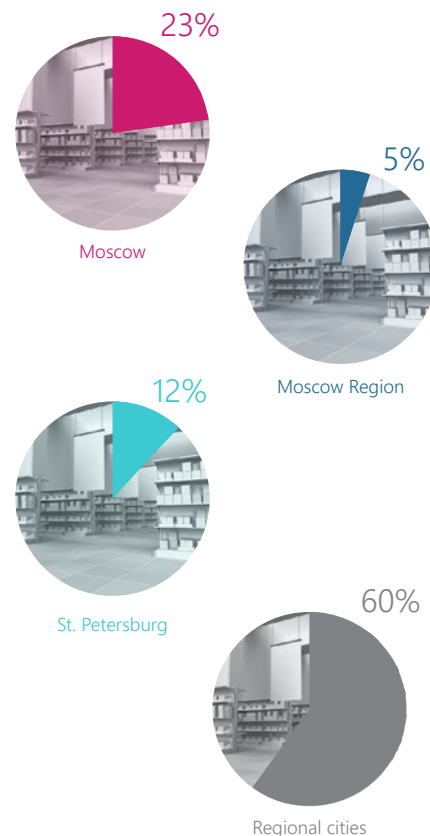
Source: Knight Frank Research, 2016

Availability of retail space in Russian million-cities, GLA in quality shopping centres per 1,000 citizens



Source: Knight Frank Research, 2016

Structure of total retail stock of Russia (GLA)



Source: Knight Frank Research, 2016

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