

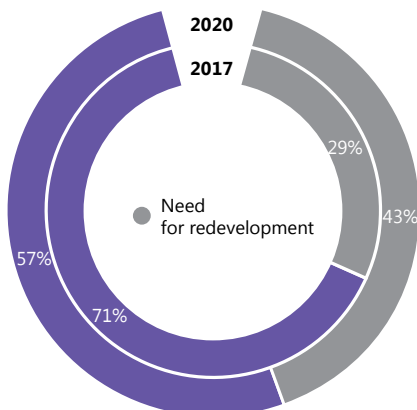
RETAIL MARKET MOSCOW

The market of the capital did not experience any supply increase of quality retail space in Q1 2017 along with a year earlier: not a single shopping centre was opened. 15 retail facilities are scheduled for commissioning in 2017; their leasable area will be about 0.4 million sq m.

Several interesting facts shall be highlighted characterizing the development of the retail real estate market of the capital. Thus, about 30% of the total volume of retail space approached the market in 2014–2016. Besides, there is a natural aging of retail properties: more than 40% of the Moscow market space will need renovation or redevelopment by 2020, according to our estimates. Also, the behavior of the capital buyer underwent some changes entailing changes in the concept of retail facilities. The interest in the development of large shopping centres has been preserved despite the achieved high concentration of retail premises – circa 50% of the capital supply has been formed by projects with GLA of more than 40 thousand sq m.

Moreover, there are several factors that indicate positive changes of market conditions for developers: for example, there is a vacancy rate reduction, an upsurge of interest to projects in the capital from international operators, and there are prerequisites for ruble rental rate increase.

More than 40% of Moscow retail space will require redevelopment by 2020, (GLA)



Source: Knight Frank Research, 2017

Key indicators*

Shopping centres stock (GBA / GLA), million sq m	11.6 / 6.02
Scheduled for opening in 2017 (GBA / GLA), thousand sq m	908.1 / 393.4
Vacancy rate, %	10.2
The share of retail facilities requiring redevelopment, %	28.5
GLA in quality shopping centres per 1,000 citizens	486.2

* 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 of more than 5,000 sq m

Source: Knight Frank Research, 2017

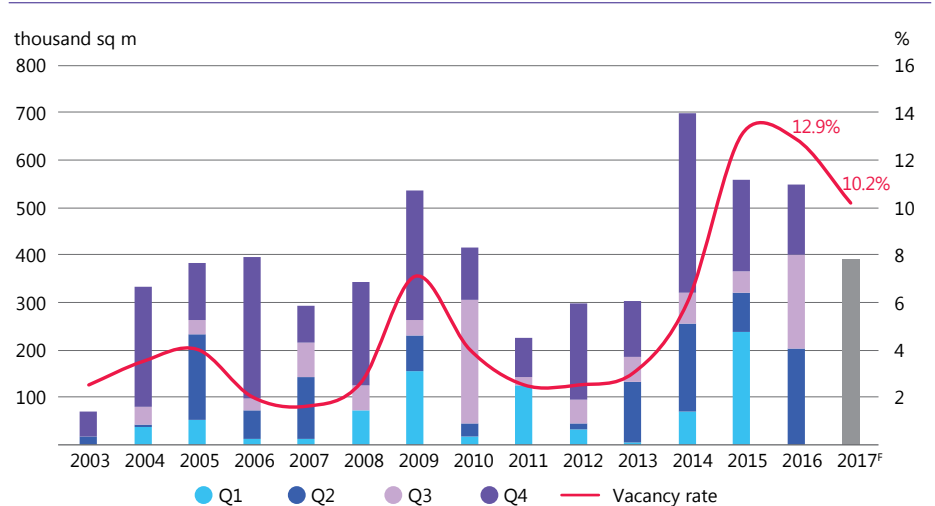
Rental rates in modern shopping centres

Profile	Fixed rental rate*, rub./sq m/year	The share paid based on 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, 2017

Volume of new shopping centres opened and vacancy rate dynamics



Source: Knight Frank Research, 2017

RETAIL MARKET SAINT PETERSBURG

Not a single shopping centre was put into operation in Q1 2017 both in St. Petersburg and Moscow. The total supply of retail space in the northern capital will highly unlikely rise. However, in the mid run, the growth of supply will be ensured both by the opening of new retail facilities (MEGA Novosel'e Shopping and Entertainment Centre, Hollywood Shopping and Entertainment Centre, Fashion House Outlet Centre), and by extending the functioning shopping centres (Zanevsky Cascade Shopping and Entertainment Centre (IV phase), Outlet Village Pulkovo (II phase), Atlantic city Shopping and Entertainment Complex).

St. Petersburg enjoys the highest availability of retail premises of all cities of Russia despite a rather long period of decline in the development activity started in 2012. The per capita availability of retail space is almost 10% higher than in Moscow.

Notably, about 40% of the total volume of retail space in St. Petersburg was delivered in the 2002–2006 timeframe – the most active stage of market development of the northern capital. Consequently, today many retail facilities have become already outdated. In the medium term, measures for the reconstruction, rebranding or re-conception of retail facilities will be the popular ways to refresh and

Key indicators*

Shopping centres stock (GBA / GLA), million sq m	4.5 / 2.79
Scheduled for opening in 2017–2019 (GBA / GLA), thousand sq m	631.3 / 379.3
Vacancy rate, %	5.2
The share of retail facilities requiring redevelopment, %	63
GLA in quality shopping centres per 1,000 citizens	528.7

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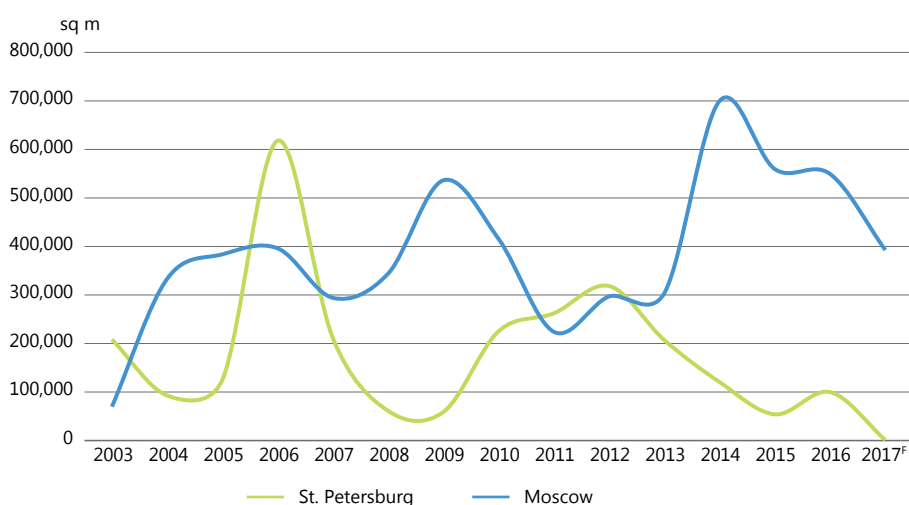
Source: Knight Frank Research, 2017

improve the format of aging retail facilities of St. Petersburg. High competition forces retail players (both operators and developers) to permanently increase the efficiency of their facilities and their attractiveness to visitors.

Retailers will be further developing in 2017, however, resources for their active expansion will be limited as the requirements for retail

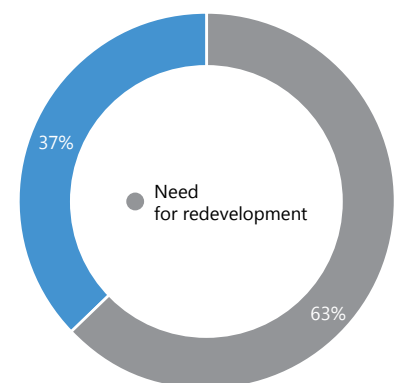
properties are strict (high consumer traffic, effective marketing strategy, flexible rental policy, etc.). We expect a gradual reduction of the vacancy rate in quality retail facilities of St. Petersburg in 2017.

New delivery dynamics in Moscow and Saint Petersburg



Source: Knight Frank Research, 2017

More than 60% of retail premises of St. Petersburg require redevelopment as of 2017, (GLA)



Source: Knight Frank Research, 2017