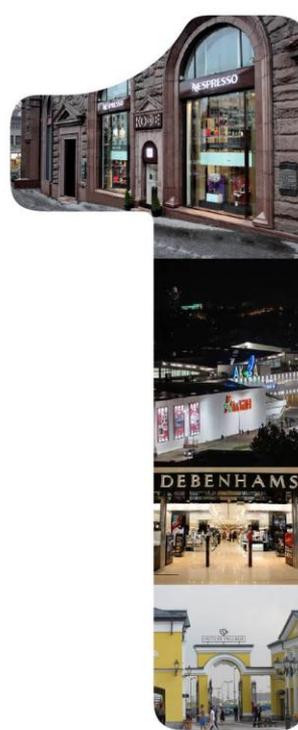


MOSCOW RETAIL PROPERTY MARKET REPORT



HIGHLIGHTS

■ NEW MOSCOW

On July 1, 2012 Moscow territory enlarged 2.5 times and more. The two newly added administrative districts have no high-quality shopping centers so far¹. That said, city border change didn't affect the total capacity of the Moscow retail property market at all.

■ NEW RECORDS

The volume of new retail space supply in Moscow malls continued to decrease, dropping to decade low.

■ DEMAND GROWTH

During 2012, vacancy rate in Moscow shopping centers went down to 2.7% due to high demand from retailers and the shortage in new modern shopping centers supply to be seen since 2011

■ RENT RATES INCREASE

Rent rates in Moscow shopping centers have grown by 7 to 10% over the year.

■ AMBITIOUS PLANS

A number of large retail schemes were announced in 2012 e.g. Butovo Mall, Galaktika, Avia Park, Columbus, VEGAS and GoodZone.

■ STREET RETAIL RENTS ESCALATION

By the end of 2012, some retail streets saw the growth of rental rates. Average rates for the most sought-after retail space formats within key retail corridors reached USD6,000–7,000/sq m/year.

■ LONG-AWAITED OPENING

Russia's first professional outlet center, Outlet Village Belaya Dacha, opened at Novoryazanskoe Highway.

¹ - According to MAGAZIN MAGAZINOV, Mega Teply Stan, like other similar objects located along the Moscow Ring Road (MKAD), is included in 'older' Moscow.

SHOPPING CENTERS



SUPPLY

During 2012, seven modern shopping centers were commissioned in Moscow to total 169,800 sq m GLA. We find Moscow Gallery and Kaleidoscope the most interesting ones.

Moscow Gallery with 28,000 sq m GBA and 21,000 sq m GLA with three retail levels is located in the very heart of Moscow, in the reconstructed Moscow Hotel to open soon. The main anchor today is the first PODIUM Market, a 7,000 sq m department store; the second anchor, a multiplex premium level cinema of about 5,000 sq m, is scheduled for 2013.

Kaleidoscope includes retail and office premises, with the total GBA nearly 120,000 sq m. Located close to Skhodnenskaya metro station. With GBA of approximately 70,000 sq m and GLA of 41,000 sq m Kaleidoscope’s retail part features 4 levels and 2 parking levels to host 930 cars. The anchors include Perekrestok, M.Video, Detsky Mir, and Sportmaster. The entertainment area consists of an 8-hall cinema, an entertainment center, and a kids’ zone.

Other commissioned in 2012 shopping centers are Sombrero, Gorod na Ryazanke (2nd phase), Parus, and Otrada (2nd phase).

We can’t but mention the opening of the first Russian professional outlet center – Outlet Village Belaya Dacha. For potential tenants, it was a risk to open a store in as the format itself was absolutely new to Russia. It is too soon to estimate the success of the project itself, but the tenants say their results already prove the format is a success. Though initially, many retailers felt pessimistic about outlet turnovers, factual sales outdid the conservative forecasts. The first outlet center now open, so retailers have positive expertise they can apply when opening their stores in similar projects.

By the end of 2012 the total supply of modern retail space in Moscow had reached almost 4m sq m (123 shopping centers).

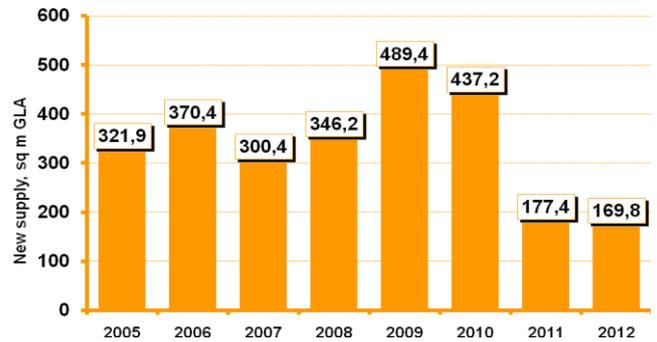
By the beginning of the 2013 amount of quality retail space in Moscow reached 340 sq m per 1,000 residents.

As of early 2012, the provision level in Moscow decreased slightly — which is partly due to the refined 2010 All-Russian Census results published.

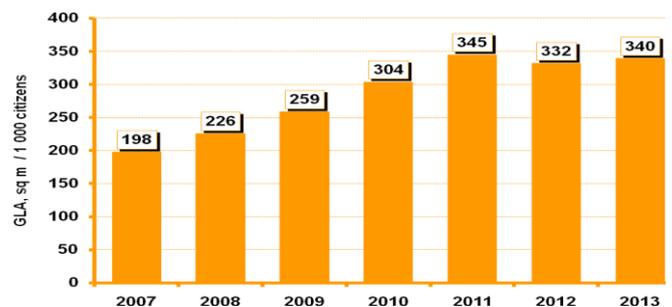
New shopping centers introduced and new administrative districts added to the capital (Troitsk and Novomoskovsk, jointly — TiNAD) changed the leasable area distribution in Moscow by late 2012.

The largest share of leasable space in modern shopping centers is located in the Southern, North-Eastern and Northern administrative districts of Moscow (17.0%, 13.8% and 12.3%, respectively). The share of South-Western district lowered by 3% that ‘went’ to TiNAD (New Moscow). TiNAD and Zelenograd have the least modern mall areas.

SHOPPING CENTERS COMMISSIONED IN MOSCOW IN 2005–2012

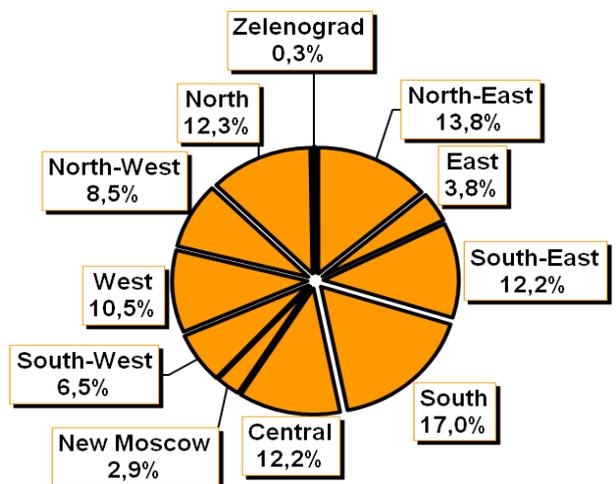


SUPPLY OF QUALITY RETAIL SPACE IN MOSCOW 2007-2012 SQ M GLA/1000 CITIZENS *



* As of the year start

BREAKDOWN OF RETAIL SPACE SUPPLY BY MOSCOW ADMINISTRATIVE DISTRICTS IN 2012



DEMAND

According to the Moscow Statistics Authority, total retail turnover in Moscow for the period January–November 2012 amounted to 3,204.2bln rubles (\$103.1 bln), exceeding the equivalent period in 2011 by 8.5% in comparable prices. 2012 promises to show the three-year high growth of this index. Markets as a retail format again show decrease of goods sale share. In 2012, it went 0.4% down YoY to make 19.6%. Given the Russian capital’s retail market dynamics and volume, it remains the most attractive market for both international and federal retailers.

In 2012, Moscow welcomed over 20 international retail brands, e.g. famous ones like Hamley’s (toys), Scotch&Soda (clothes), Bath & Body Works (perfumery), MICHAEL Michael Kors (clothes and accessories), Paul (café), Vera Wang Bride (clothes, wedding dresses), Ballantyne (clothes), Harry Winston (jewellery). Kilian perfumery brand opened its world-first mono-brand boutique in Moscow. The advent of Debenhams department store and Hamley’s was of particular importance for the market.

Debenhams in fact had previously worked in the country. It opened in Moscow back in 2006; yet it closed after two years. A new department store covering about 3,500 sq m opened in Mega Belaya Dacha in September 2012. The company is planning to open seven stores of 4,000 to 8,000 sq m each, within the next five years.

Russia’s first Hamley’s opened at Evropeisky shopping center, however the flagship store is planned to be opened at Central Kids Mall on Lubyanka (Centralny Detsky Magazin na Lubyanke), as Ideas4Retail, the company which develops the chain in Russia signed a preliminary lease agreement with Hals Development, the project developer, for 7,000 sq m. If the lease contract is signed, the Russian flagship store of Hamley’s will be the world’s largest.

The vast majority of coming international brands focus on their presence in shopping centers, trying to reduce risks. They mostly consider existing malls for their new stores. The top five shopping centers preferred for pilot developments are Evropeisky, Atrium, Metropolis, Mega Belaya Dacha, and Mega Teply Stan. Still, such retail profiles as cafés and restaurants as well as luxury brands tend to look for street retail segment for both pilot and further projects.

International chains consider Russia one of the most interesting markets. Despite the possible risks related to entering new markets, the country’s potential prevails when expansion directions are decided on. In 2013–2014, we’re expecting a lot of new international names and major openings. Those include Kidzania (entertainment center), Rebel, Ferre, Takko Fashion, Collezione fashion, Penti (clothes and accessories), Deichmann, Humanic (footwear), Steak’n Shake, Krispy Kreme and Quiznos (cafés and restaurants), and more. A number of larger international players look closely at the Russian market to try and decide on expansion options.

In 2012 the vacancy rate in Moscow shopping centers averaged 2.7%. The main factors which led to the lowered number are high demand from tenants and lack of quality retail space due to slowed rates of new retail projects commissioning.

MOSCOW RETAIL TURNOVER DYNAMICS IN 2006–2012*

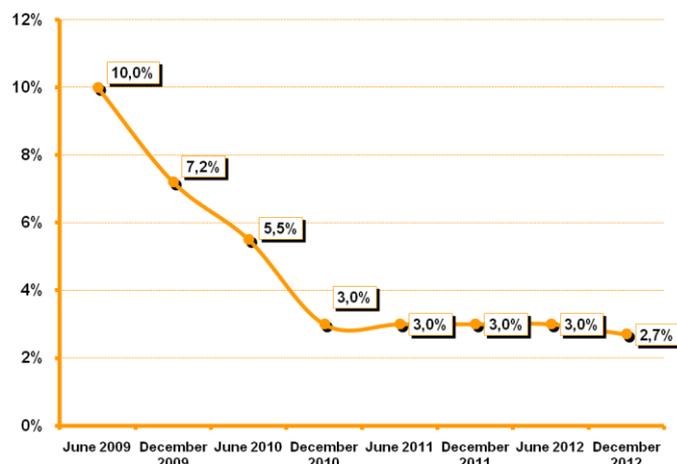


* January–November 2012 retail turnover data for Moscow within its pre-July 2012 borders.

DEBENHAMS DEPARTMENT STORE OPENED IN MEGA BELAYA DACHA



VACANCY RATE DYNAMICS IN MOSCOW MODERN SHOPPING CENTERS 2009–2012



RENTS

In 2012, the average rental rates in Moscow shopping centers grew by 7 to 10%.

Rent rates for anchor tenants vary from USD150 to USD600² per sq m/year depending on the space size, profile and other criteria. Lease contracts are signed for 10 to 25 years. Maintenance payments for larger anchors average USD40 to 60 per sq m/year before VAT. For smaller anchor tenants, it is USD80 to 120 before VAT.

The rental rates growth was noted in a number of segments like city hypermarkets (end-of-year rates reached USD250 to 350 per sq m/year), supermarkets (USD400 to 600 per sq m/year), kids' goods stores (USD300 to 600 per sq m/year) and multiplex (USD180 to 270 per sq m/year).

Rental rates for larger clothes stores range from USD300 to 500 per sq m/year.

Average rates for fashion gallery tenants, however, remained stable. Rates vary from USD2,200–3,200 for smaller (under 50 sq m) shops to USD600–800 for larger (500–1,200 sq m) stores. Contracts with fashion gallery tenants are typically concluded for lease periods of 3 to 5 years. Maintenance costs for these tenants usually range from about USD150 to 200 per sq m/year before VAT.

Lease rates average USD700 to 900 per sq m/year for restaurants, USD1,200 to 1,800 for cafés, and USD1,800 to 2,300 for food court eateries. These tenants normally sign contracts for five years with maintenance costs ranging from USD170 to 220 per sq m/year before VAT.

AVERAGE RENTAL RATES IN MOSCOW SHOPPING CENTERS, 2012

Tenant	Space, sq m	Average rates, USD/sq m/year (excl. VAT and operating cost)	
		July 2012	December 2012
Hypermarket	>8,000	150 – 250	150 – 280
Hypermarket (city format)	4,000 – 8,000	200 – 280	250 – 350
DIY	>10,000	180 – 250	180 – 250
Supermarket	1,000 – 4,000	300 – 500	400 – 600
Electronics and home appliance stores	1,500 – 4,500	300 – 600	300 – 600
Sports goods	4,000 – 6,000	250 – 350	250 – 350
Sports goods	1,200 – 2,500	350 – 550	350 – 550
Kids stores	1,000 – 2,500	300 – 500	300 – 600
Clothes	1,500 – 2,500	280 – 500	300 – 500
Multiplex cinemas	2,500 – 4,000	150 – 220	180 – 270
Fashion gallery	500 – 1,200	600 – 800	600 – 800
	250 – 500	800 – 1,200	800 – 1,200
	100 – 250	1,200 – 1,700	1,200 – 1,700
	50 – 100	1,700 – 2,300	1,700 – 2,300
	<50	2,200 – 3,200	2,200 – 3,200
Restaurants	300 – 600	600 – 800	700 – 900
Coffee shops	150 – 300	1,000 – 1,500	1,200 – 1,800
Food court	50 – 100	1,700 – 2,000	1,800 – 2,300

INVESTMENTS TRANSACTIONS

In 2012 the Moscow retail property market saw a number of larger investment transactions.

Romanov Property Holdings Fund purchased 40% of Vremena Goda shopping center from Volksbank Real Estate Austria. The center is a luxury one.

The Government of Moscow sold its share in Evropeisky mall to its primary owners, God Nisanov and Zarakh Iliev affiliates.

Patero Development sold 50% of its 170,000 sq m Golden Babylon Rostokino to IMMOFINANZ Group.

Besides, deals were closed for Sokolniki shopping center (VTB sold 100% of it to Holding-Center); Moscow Department Store (Inzhspecstroy bought 95% from Legacy Investment House Ltd.); two Metromarket shopping centers (Atlant Capital Partners purchased 100% from RB Investments) and Actor Gallery retail and office center (acquired by SOFAZ — State Oil Fund of Azerbaijan).

INVESTMENT TRANSACTIONS IN THE MOSCOW RETAIL PROPERTY MARKET, 2012

No	Name	Investor	GLA, sq m
1	Vremena Goda	Romanov Property Holdings Fund	25,000
2	Evropeisky	Kievskaya Ploshad	65,000
3	Golden Babylon Rostokino	IMMOFINANZ Group	170,000
4	Metromarket (near Proletarskaya subway station)	Atlant Capital Partners	2,500
5	Metromarket (near Timiryazevskaya subway station)	Atlant Capital Partners	5,600
6	Moscow Department Store	Inzhspecstroy	10,500
7	Sokolniki	Holding-Center	12,000
8	Actor Gallery	SOFAZ	3,000*

* GLA of the retail part.

² All rental rates cited are VAT-exclusive and do not include operating expenses.

FORECAST

In 2013, the Moscow retail property market is set to get 9 new modern shopping centers with 337,600 sq m GLA. The largest of those will be VEGAS in Crocus City at 66th km of the Moscow Ring Road (111,000 sq m GLA) and GoodZone at Kashirskoye Highway (70,000 sq m GLA). If the opening deadlines announced are observed for all these sites, the total amount of new retail space offered in modern shopping centers in 2013 will be twice that of 2012.

2012 saw a number of larger retail projects revived e.g. Butovo Mall, Galaktika, Avia Park, Columbus, VEGAS, and GoodZone.

Two new VEGAS malls are being developed in the Moscow region. One of those is scheduled to open in Crocus City in 2013. The other one located by the Moscow Ring Road, between Mozhayskoye and Rublevo-Uspenskoye Highways, is to be commissioned in 2014.

In H1 2012, AMMA Development received a city development plan for its Avia Park mall (the leasable part is totaling 236,000 sq m) to open in 2014.

Another recently 'defrosted' project is Galaktika by BIN Group, revived in early 2012. This 700,000 sq m multifunctional complex will include 90,000 sq m of retail space as well as a large entertainment area to feature a Universal Studios theme park.

In 2014, Butovo Mall (143,000 sq m GBA and 65,000 sq m GLA) will be commissioned in the South-West of Moscow by MD Group. The anchors including hypermarket, multiplex IMAX cinema, home appliances store, sports store, kids' goods shop and kids' entertainment center. The fashion gallery will host 160+ shops.

SHOPPING CENTERS TO BE COMMISSIONED IN 2013 IN MOSCOW

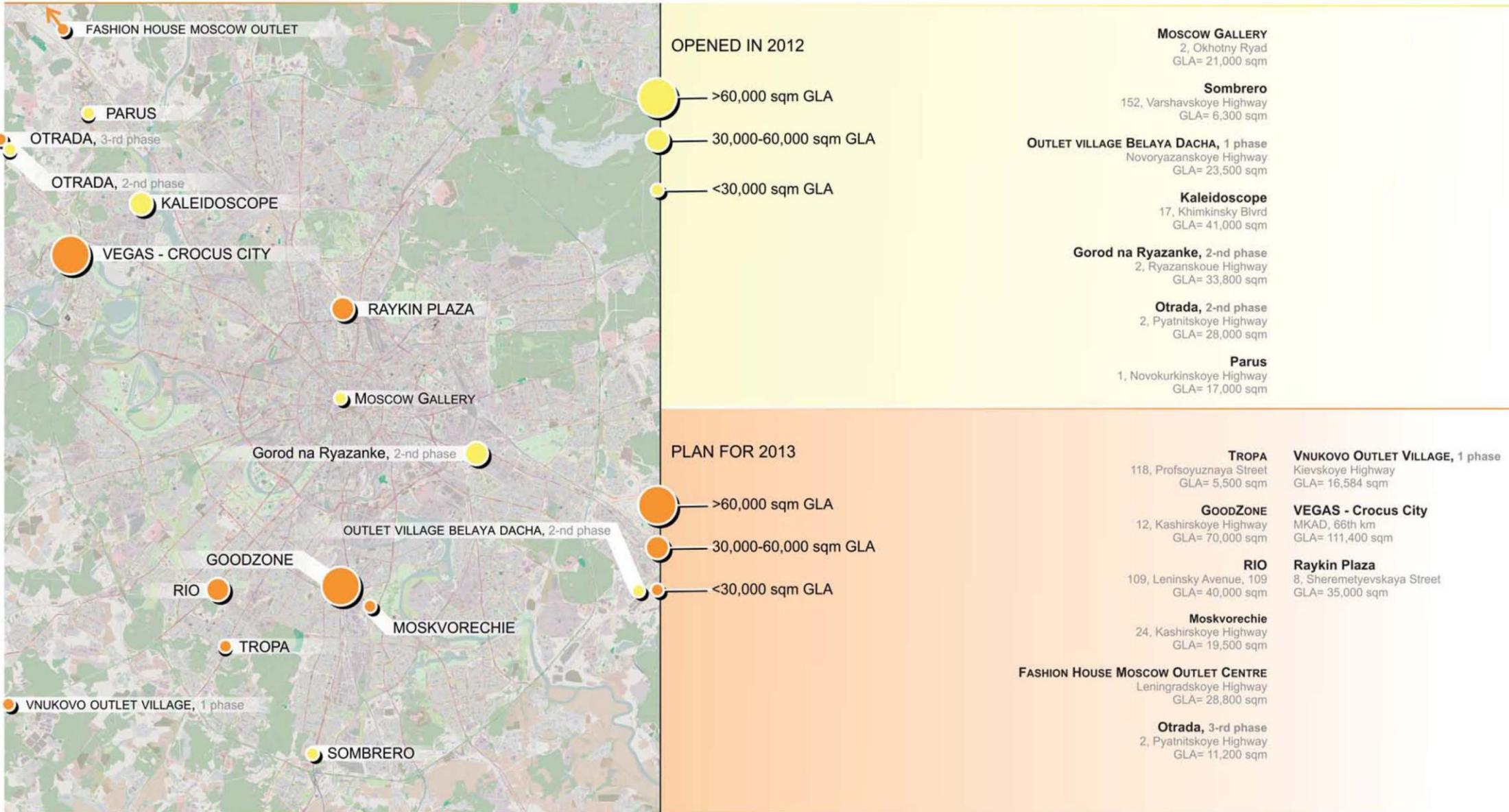
Name	Address	GBA, sq m	GLA, sq m
GoodZone	Kashirskoye highway, belonging 12	120,000	70,000
RIO	Leninsky avenue, 109	75,000	40,000
Moskvorechie	Kashirskoye Highway, 24, bld. 12	30,000	19,500
Fashion House Moscow Outlet Center	Leningradskoye Highway	35,600	28,800
Otrada, 3 phase	Pyatnitskoye Highway, belonging 2	-	11,200
Vnukovo Outlet Village, 1 phase	Kievskoye Highway	29,736	16,584
VEGAS Crocus City	MKAD, 66 th km	283,000	111,000
Raykin Plaza	Sheremet'yevskaya Street, 8	70,000	35,000
Tropa	Profsoyuznaya Street, belonging 118	7,800	5,500

* Note. The year of opening according to the schedule as of December 2012 or in consideration of the works progress.

GALAKTIKA MULTIFUNCTIONAL COMPLEX



MOSCOW SHOPPING CENTER SUPPLY. 2012-2013



STREET RETAIL



SUPPLY

On the whole, supply level in the Moscow street retail segment has remained stable during the last few years. MAGAZIN MAGAZINOV considers 17 key retail streets in Moscow with the total leasable space of 250,000 sq m. Major retail streets are situated in the city center (excluding Kutuzovsky Avenue, Mira Avenue, Leninsky Avenue and Profsoyuznaya Street).

In 2012 Moscow's premium retail market witnessed a significant event: the increase of space in the street retail segment due to the entry of Hotel Metropol, a historical and architectural landmark of Russia. The package of offers includes 17 exclusive luxury boutiques with the total leasable area of 4,000 sq m and space formats of 15 to 1,600 sq m.

DEMAND

Demand for high quality spaces in retail streets has remained stable. The vacancy rate in 2012 ranged from 3 to 4%.

2012 was a successful year for the street retail segment. It was more dynamic and saw a larger number of requests than the year 2011. Tenants that contributed most to the development of street retail format were dining facilities, banks, food chains and service enterprises.

Cafés and restaurants rank first in the structure of demand for street retail spaces in 2012 (33.9%), followed by banks (17.7%) and food stores (13%). In the services sector which comprised 6.5% of all the requests, beauty salons and medical centers provided for most of the demand.

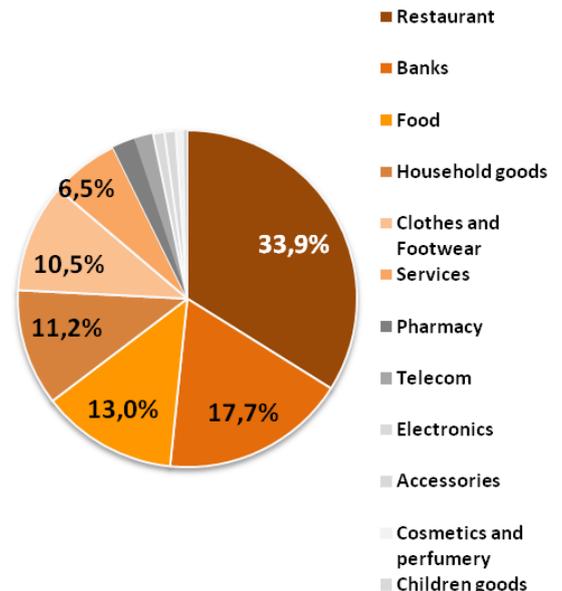
The fewest number of requests for street retail spaces in 2012 came from pharmacies and eyewear stores, telecom operator retail shops, home appliances and consumer electronics sellers, accessories stores, cosmetics and perfumery stores and kids' shops. In total, requests for these profiles comprise about 7%.

The most sought-after are smaller spaces below 150 sq m and large-format spaces over 1,000 sq m. The former are in short supply because street retail spaces with the area of 50 to 150 sq m are in great favor while the market offers mainly medium-format spaces of 200 to 1,000 sq m. The deficit in the latter is due to insufficient liquidity of large-format spaces.

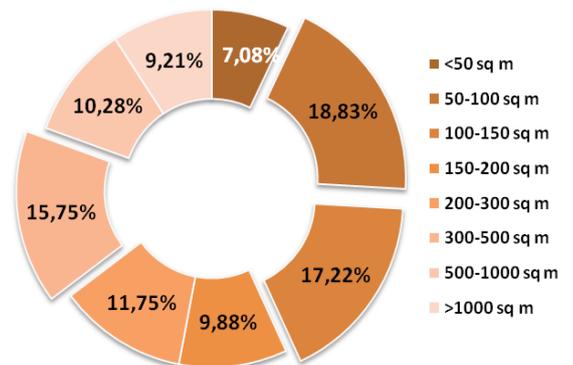
HOTEL METROPOL



STRUCTURE OF DEMAND FOR STREET RETAIL SPACE IN MOSCOW 2012



THE STRUCTURE OF DEMAND FOR STREET RETAIL SPACE, 2012



Last year's demand structure for street retail space was different from that of the previous time periods. The major trend of 2012 became the decline in the number of requests from clothing and footwear stores. This decline is particularly obvious when compared to the results of 2011 (10.5% of the total number of requests as compared to 23.9% respectively). In contrast, the number of requests from cafés, restaurants and banks has been growing during the last three years.

In 2012 the street retail segment saw several landmark rental transactions. Nestlé Nespresso SA rented a space of 534 sq m for its Nespresso boutique in Tverskaya Street. This Nespresso boutique that opened in December became the brand's 300th boutique globally. In 2012 in the same building a unit of 1,700 sq m was rented by the Reserved flagship store.

Other landmark events of 2012 worth mentioning are the openings of flagship boutiques by Prada (Stoleshnikov Lane) and Chanel (Petrovka Street). Though these brands have been presented in Russia for a long time, the two new boutiques deserve particular note because they were opened directly, with no Russian franchisees participating. Vera Wang Bride opened its flagship boutique in Kuznetsky Most Street.

RENTS

The second half of 2012 saw increase in the average rent rates for the existing deals in many retail corridors.

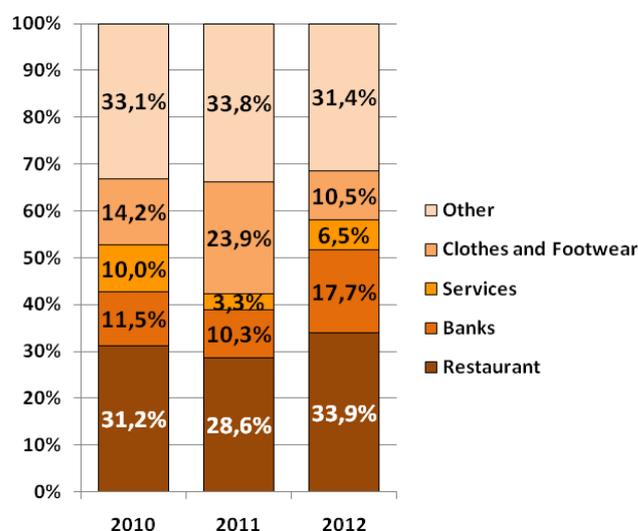
Meantime, the highest average rent rates still remain in the following retail streets: USD3,500 to 4,500 per sq m/year in Petrovka Street, USD4,000 to 6,000 per sq m/year in Stoleshnikov Lane, USD5,000 to 7,000 per sq m/year in Tverskaya Street (all figures exclude VAT).

As a rule, street retail lease contracts are signed for the period of 3 to 5 years with the rent rates indexed by 5–10% on a yearly basis.

FORECAST

Given the current level and structure of demand for street retail spaces located in the major retail streets of Moscow, MAGAZIN MAGAZINOV forecasts a slight increase in average rent rates in this segment during the year 2013.

DYNAMICS OF DEMAND FOR STREET RETAIL SPACE 2012



AVERAGE RENT RATES FOR RETAIL STREETS IN MOSCOW, AS OF LATE 2012

Street name	Average rent rates for spaces of 150–200 sq m, USD/sq m/year (excluding VAT)	
	Q4 2011	Q4 2012
Bolshaya Dorogomilovskaya Street	1,800 – 2,500	2,000 – 3,000
Kuznetsky Most Street	2,500 – 4,000	3,000 – 4,000
Kutuzovsky Avenue (from the city center to the Third Ring Road)	1,800 – 3,000	2,000 – 3,000
Leninsky Avenue (from the city center to the Third Ring Road)	2,000 – 3,000	2,000 – 3,000
Maroseyka Street	2,000 – 3,000	2,800 – 3,200
Myasnitskaya Street (from the city center to Chistoprudny Boulevard)	1,500 – 2,000	1,800 – 2,200
Nikolskaya Street	2,000 – 2,500	2,500 – 3,000
Novy Arbat Street (from the city center to Novinsky Boulevard)	2,000 – 3,000	2,500 – 3,000
Petrovka Street	3,500 – 4,500	3,500 – 4,500
Mira Avenue (from the city center to the Third Ring Road)	1,000 – 2,000	1,500 – 2,000
Pokrovka Street (from the city center to Chistoprudny Boulevard)	1,500 – 2,000	1,500 – 2,000
Stary Arbat Street	2,000 – 3,000	2,500 – 3,000
Stoleshnikov Lane	4,000 – 6,000	4,000 – 6,000
Tverskaya Street (even numbers – from Okhotny Ryad to Pushkinskaya Square)	5,000 – 7,000	5,000 – 7,000
Tverskaya Street (odd numbers – from Okhotny Ryad to Pushkinskaya Square)	3,000 – 4,500	3,000 – 4,500
Tverskaya Street (even numbers – from Pushkinskaya Square to Mayakovskaya subway station)	3,000 – 4,500	3,000 – 4,500

CONTACTS:**Head of Research and Consulting**

Andrey Vasyutkin

vasyutkin@magazinmagazinov.ru**Retail Expansion Support**

Narmina Gorina

gorina@magazinmagazinov.ru

Ksenia Grevtsova

Grevtsova@magazinmagazinov.ru**Business Development Director**

Maksim Mankevich

mankevich@magazinmagazinov.ru**Managing Director**

Dmitry Burlov

burlov@magazinmagazinov.ru

40/2 Prechistenka, Moscow 119034 Russia

Tel: +7 (495) 790-00-00

Fax: +7 (495) 725-26-65

www.magazinmagazinov.ruinfo@magazinmagazinov.ru

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