

MOSCOW RETAIL MARKET 2009



SUPPLY

Two large shopping centers were opened in Moscow in 4Q, 2009: “Zolotoy Vavilon - Rostokino” on Mira Ave. (GBA – 241,000 sq. m; GLA – 170,000 sq. m) and “Gorod” on Entouziastov Ave. (GBA – 240,000 sq. m; GLA – 111,000 sq. m). Investments in these projects totaled 750 mln. USD and 250 mln. Euros respectively.

In 2009 six shopping centers with aggregate GBA equal to 895,400 sq. m and GLA — 489,400 sq. m were introduced to the market. Nowadays Moscow accounts for 101 modern shopping centers which make up a GLA of 2,205 mln. sq. m. Supply of retail space per 1000 citizens is 304 sq. m.

Total amount of new delivery of retail space in shopping centers went up by 41% comparing to 2008, and by 63% - comparing to 2007. Despite crisis tendencies in the Russian economy which had a serious impact on the retail market, the Moscow real estate market had seen an all-time high amount of new retail space.

To some extent this may be explained by the opening of several large projects such as “Metropolis”, “Zolotoy Vavilon - Rostokino”, “Gorod” which were commenced a few years ago. Developers had to complete these projects at any cost even opening them near-empty and leasing rest of the vacant space on terms advantageous to tenants.

At the same time a number of Moscow shopping centers were not opened in 2009 despite their developers' announcements. Among them are “Markos Mall” on Altoufyevskoe avenue, “Favorit” on Yuzhnoboutovskaya street, “Klyuchevoy” on Borisovskie Prudy street, “Viva” ob the intersection of Polyany and Akademika Gloushko streets, “Rechnoy Vokzal” on Festivalnaya street etc.

DEMAND

Dynamics of the demand for retail space in 2009 was under strong influence of Russia's macroeconomics and general forecasts of major international financial institutions. For instance, in the beginning of the year our specialists noted a sharp decrease in acquiring new stores by various retailers caused by low prices on oil, currency depreciation, lack of liquidity and a fall of customers' disposable income.

Besides, many retailers were optimizing their businesses closing or relocating some of their stores. This resulted in an incredible soar of vacancy rates up to 12%.

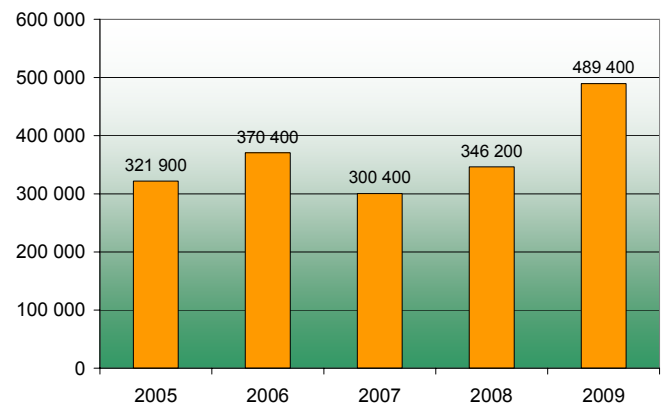
From the 3rd quarter of 2009 retailers started feeling more confident and comfortable about the future market perspectives and, therefore, resumed the process of acquiring new stores trying to gain from favorable market conditions. Landlords became much more flexible and open for negotiating such conditions as turnover rate, rent-free period and longer term of a contract.

By the end of 2009 vacancy rate went down to 7% despite two big openings in the 4th quarter mentioned above.

SHOPPING CENTERS OPENED IN 4Q, 2009

№	Name	Address	GBA, sq. m	GLA, sq. m	Opening Date
1	Metropolis	Leningradskoe Ave., 16	215,000	80,000	January
2	Megapolis	Andropova Ave., 8	60,000	44,000	February
3	Spektr	Novoyasenevsky Ave., 1A	56,400	30,000	March
4	Filion	Bagratiyevskiy lane, b. 5	83,000	54,000	May
5	Zolotoy Vavilon - Rostokino	Mira Ave., 211	241,000	170,000	November
6	Gorod	Entouziastov Ave., 12, b. 2	240,000	111,000	December

ANNUAL SUPPLY OF RETAIL SPACE IN MOSCOW SHOPPING CENTERS IN 2005-2009 (sq. m)



LIST OF ANCHOR TENANTS IN SHOPPING CENTERS OPENED IN 2009

№	Name	Anchor Tenants
1	Metropolis	Carousel, Kalinka Stockmann, Snezhnaya Koroleva, H&M, Sportmaster, M.Video, Kinostar, Champion, Crazy Park
2	Megapolis	Carousel, Tekhnosila, Raduga Kino
3	Spektr	Carousel, M.Video, Karo Film
4	Filion	Carrefour (to be replaced by Auchan), Cinema Park, BABYLON, Decathlon, Sportmaster, Detsky Mir
5	Zolotoy Vavilon - Rostokino	O'Kei, Castorama, Media Markt, Kalinka Stockmann, H&M, Snezhnaya Koroleva, Sportmaster, Luxor
6	Gorod	Auchan, Leroy Merlin, Decathlon, M.Video, Snezhnaya Koroleva, Kronverk Cinema

RENTAL RATES

Over the first half of 2009 there was an apparent reduction of rental rates for retail premises which was caused by a dramatic decrease in demand from many retailers. Comparing to 2008 rental rates fell down by 25-30%. However, real slump heavily depended on size and location of a particular retail premise or a shopping center.

In August rental rates reached the market's bottom and stabilized. From that time on and up to date the market had not seen any abrupt fluctuations.

YIELD

In 2009 potential investors were showing strong interest towards retail premises on the high streets of Moscow with an average sale price about 5-7 mln. US dollars forecasting a sharp increase in their value during a post-crisis period.

While assessing price of a potential transaction for retail premises on major streets both buyers and sellers considered capitalization rate to range from 11% to 13%. At the same time over the 1Q there were several deals which were closed at 18%.

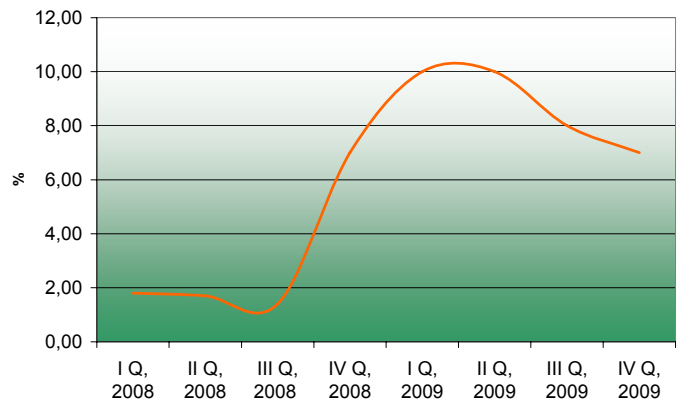
FORECAST

About 20 shopping centers with an aggregate GLA exceeding 900,000 sq. m are under construction in Moscow at the moment. Among the most remarkable ones are "Vegas", "Mall of Russia", "River Mall", "Gagarinsky", "GoodZone" and "RIO".

In a medium-term perspective new delivery of retail space is expected to amount to 300,000-400,000 sq. m yearly. This stock should be sufficient for meeting tenants' demand for modern retail premises. However in a long-term perspective the crisis may result in a certain gap in new construction.

Taking into consideration stable demand for new retail space from major Russian and international retailers together with inflation rates we forecast a 10% growth in rental rates over 2010.

VACANCY RATE IN MOSCOW SHOPPING CENTERS, %



AVERAGE RENTAL RATES IN MOSCOW SHOPPING CENTERS IN 4Q, 2009

Average Area, sq. m	Possible Tenant Profiles	Average Rental Rates (USD/sq. m/year, not incl. VAT and utilities) Y
> 3,000	Grocery hypermarket, department store, DIY	100 – 150
1,000 – 3,000	Grocery supermarket, electronics	300 – 600
300 – 1,000	Clothing, furniture, sport goods, convenience store, kids goods	600 – 1,300
100 – 300	Bank, clothing, footwear, perfumes and cosmetics	1,200 – 1,700
< 100	Pharmacy, jewelry, clothing, footwear, accessories	1,500 – 2,500

LARGEST SHOPPING CENTERS UNDER CONSTRUCTION

No	Name	Address	GBA, sq. m	GLA, sq. m
2	Vegas	MKAD, 24 km.	200,000	130,000
3	Mall of Russia	Krasnopresnenskaya embankment	179,000	101,000
4	River Mall	Avtozavodskaya St., 16-18	258,000	88,000
4	Gagarinsky	Vavilova St., 3	202,000	60,000
5	GoodZone	Kashirskoe Ave., 12	120,000	70,000
6	RIO	МКАД, 2 km	85,000	67,000

This report is based on the results of the studies conducted by MAGAZIN MAGAZINOV part of the CB Richard Ellis network, including quarterly monitoring of the Moscow retail real estate market, actual transactions' parameters and forecasts regarding further perspectives of the market.