Retail in Russia's Regions: The Flight to Quality

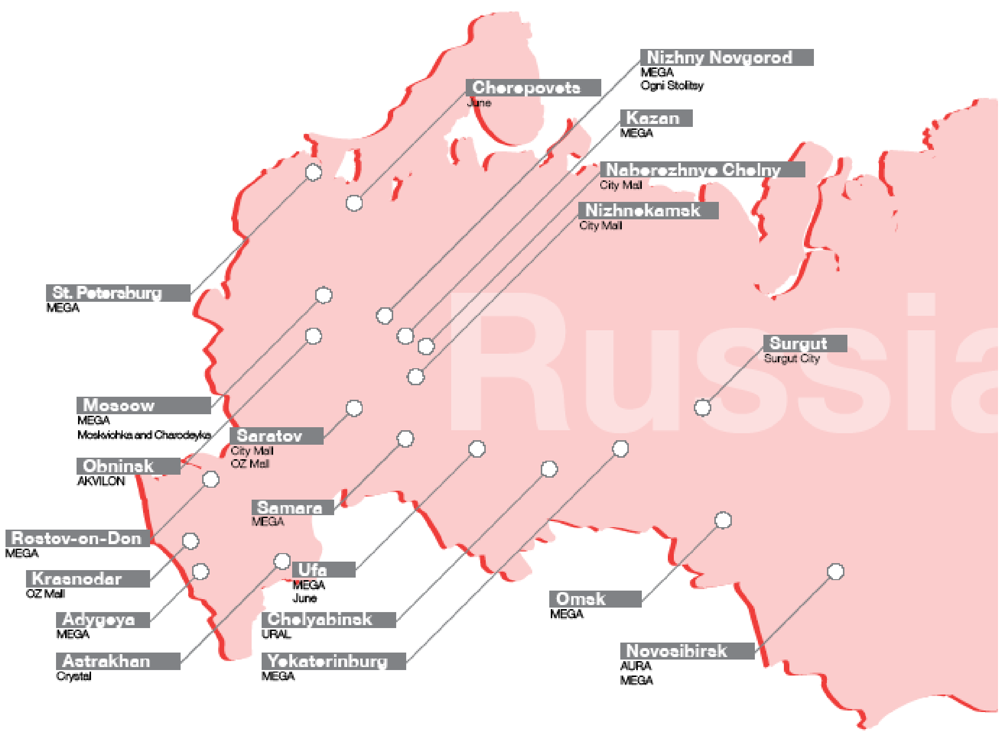
"Fastest Developing Regional Cities",
AEB Conference, Moscow, December 18 2008

Agenda

- Introduction to DTZ Moscow Retail Research
- Russian Retail Development Landscape
- Shopping Centre Supply
- Quality of Schemes
- Demand
- Conclusions

Introduction to DTZ Moscow Retail Research

- **Market-leading Retail Agency team with unrivalled expertise in Russian Regions.**



Introduction to DTZ Moscow Retail Research

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- **Comprehensive database providing key statistics on Shopping Centre development in major Russian cities.**

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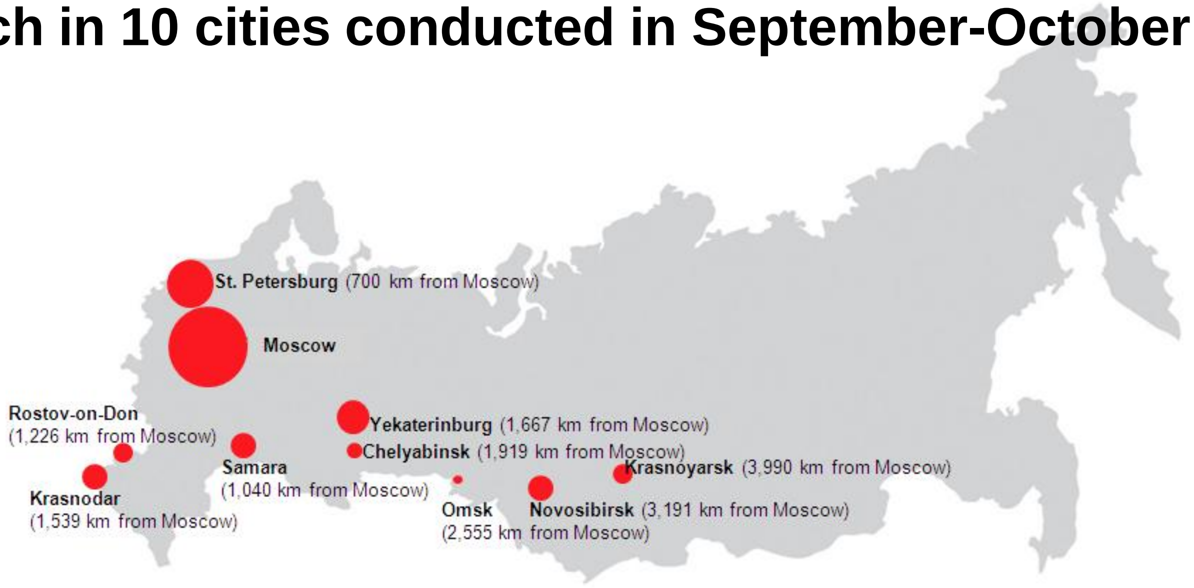

Introduction to DTZ Moscow Retail Research

- Market-leading Retail Agency team with unrivalled expertise in Russian Regions.
- Comprehensive database providing key statistics on Shopping Centre development in major Russian cities.
- Collection of data directly from contacts with developers and field research in 10 cities conducted in September-October 2008.
- Findings to form the basis of a research report to be published in early 2009.

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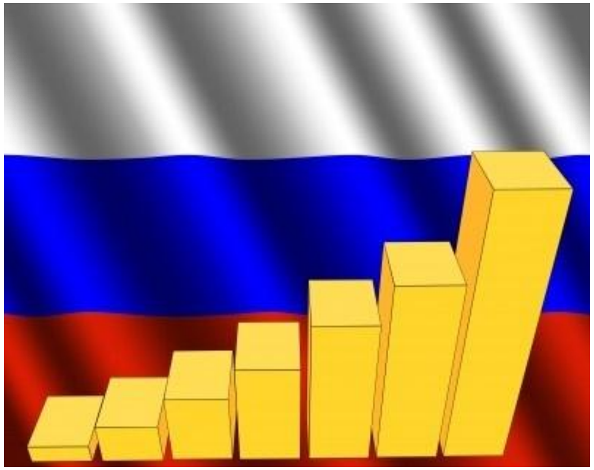
Russian Retail Development Landscape

Pre-Financial Crisis 2008:

1. Oil-fuelled Economic Boom
2. Financing generally available
3. Overly Ambitious Development Pipelines
4. Overconfident Developers



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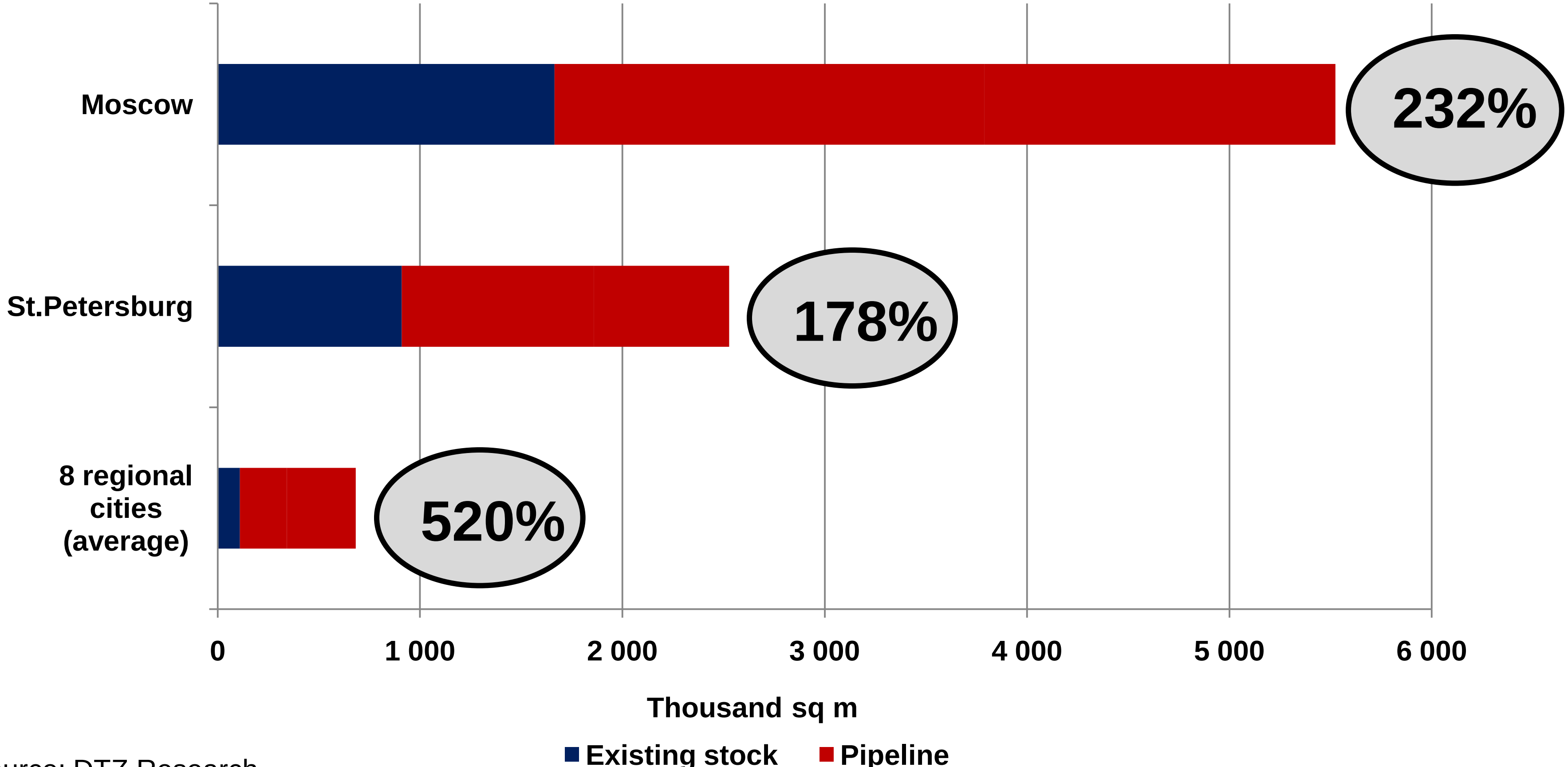
Russian Retail Development Landscape

Post-Financial Crisis 2008

1. Economic Downturn
2. Virtually No Financing Available
3. Risk of Undersupply
4. Developers Adjusting to Reality

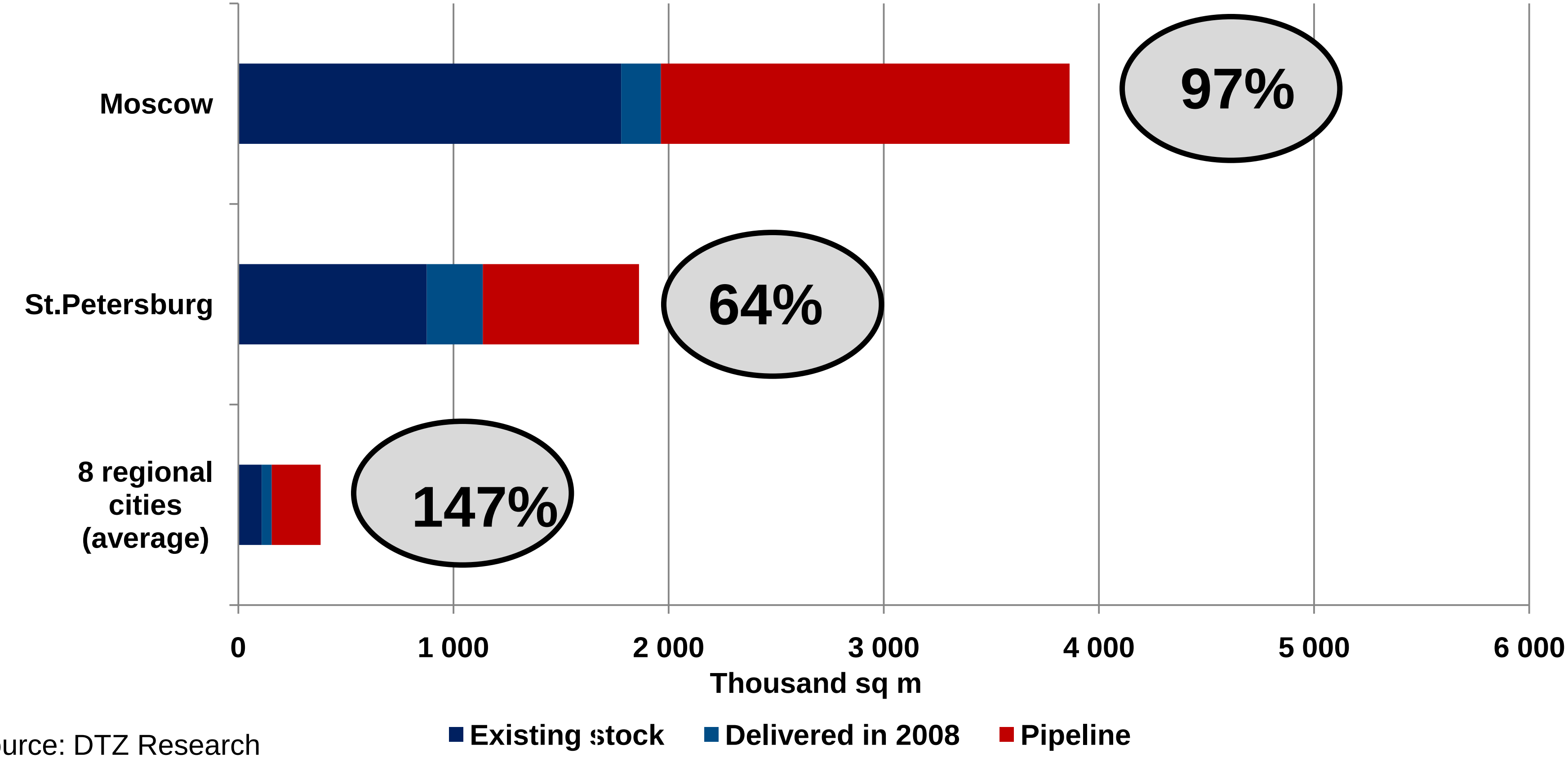
Existing stock (December 2007) and projected retail development pipeline*, 2008-2010



Source: DTZ Research

***Pipeline – projects both under construction and announced**

Existing stock (December 2008) and revised retail development pipeline*, 2009-2011



Source: DTZ Research

***Revised pipeline – projects under construction (adjusted for developments frozen or cancelled)**

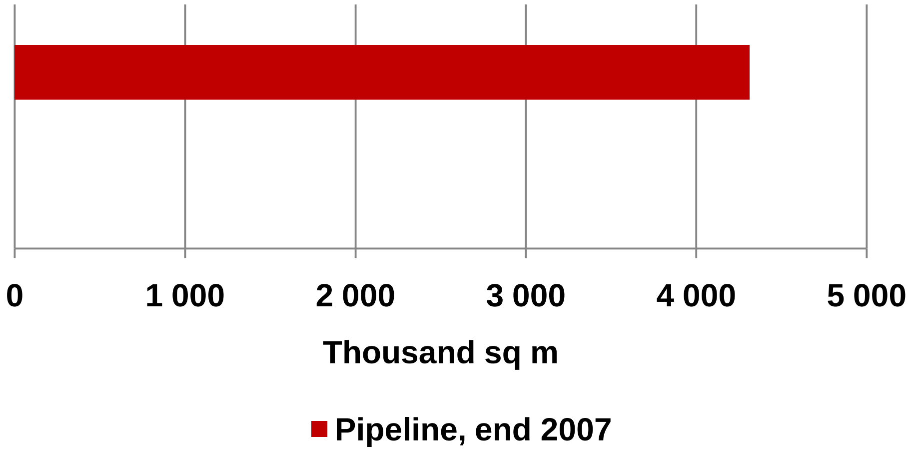
Moscow

EXAMPLES OF PROJECTS UNDER CONSTRUCTION

RIO on Dmitrovskoe Highway, 163a (**250,000** sq m GLA)
Marcos Mall on Altufyevskoe Highway, 70 (**25,000** sq m GLA)

EXAMPLES OF PROJECTS DELAYED OR FROZEN

Tryapka on Leningradskoe Highway, 25 (**20,000** sq m GLA)
Goodzone on Kashirskoe Highway, 12 (**60,000** sq m GLA)



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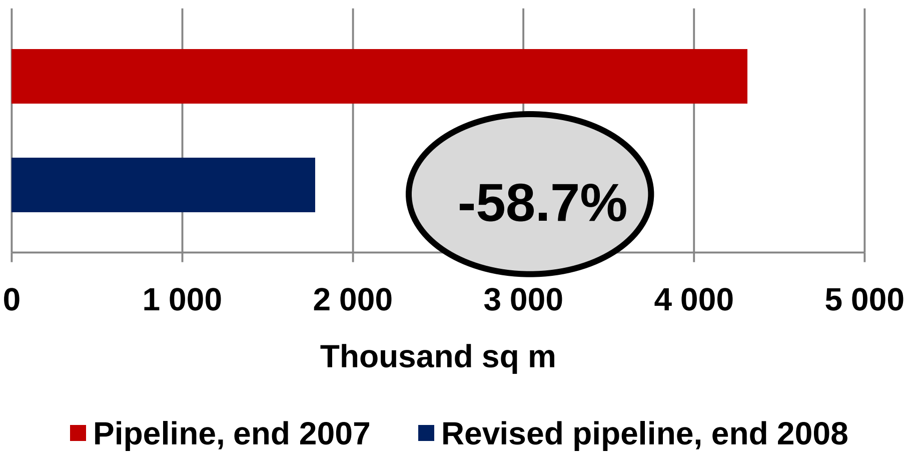


Source: DTZ Research

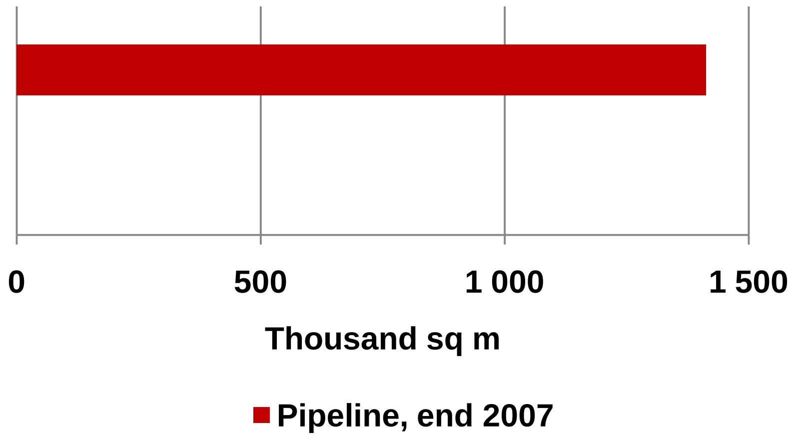
St. Petersburg

EXAMPLES OF PROJECTS UNDER CONSTRUCTION

Cruise on Komendantsky Avenue (**15,500** sq m GLA)
Galeria on Ligovsky Avenue, 26/38 (**93,000** sq m GLA)

EXAMPLES OF PROJECTS DELAYED OR FROZEN

Shkiperskiy Mall (phase 3) on Nalichny Avenue, 18 (**49,000** sq m GLA)
Europe Center on Stachek Avenue, 45 build.2 (**48,000** sq m GLA)



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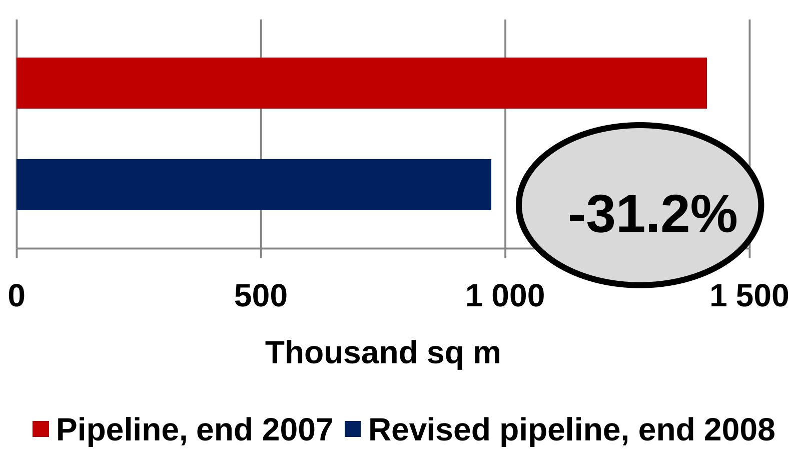

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Novosibirsk

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Aura on Voennaya St/Kamenskaya Highway (**54,000** sq m GLA)
Versal on Karla Marksa Sq., 2 (**20,000** sq m GLA)

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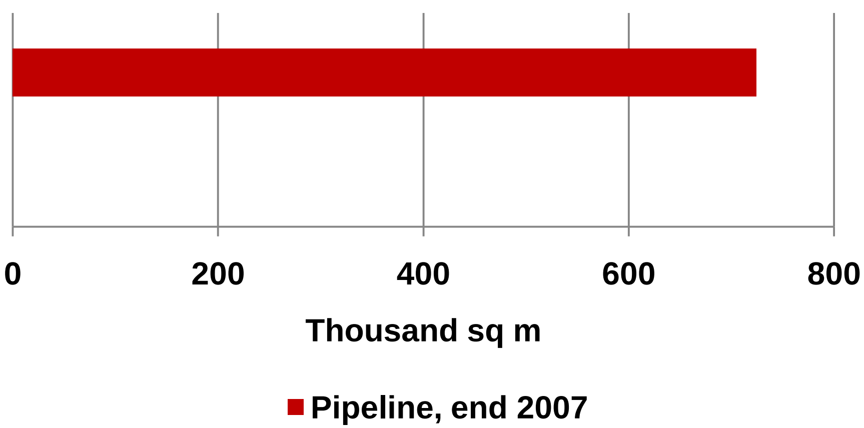
Kamenka on Kameskoe Highway (**110,000** sq m GLA)
Kamenka Mall on Kameskaya Highway (**114,000** sq m GLA)



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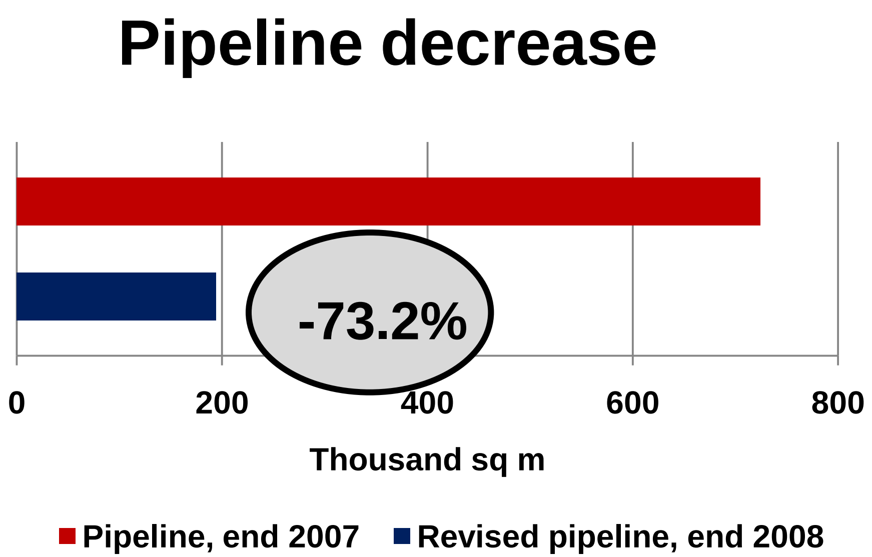

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Yekaterinburg

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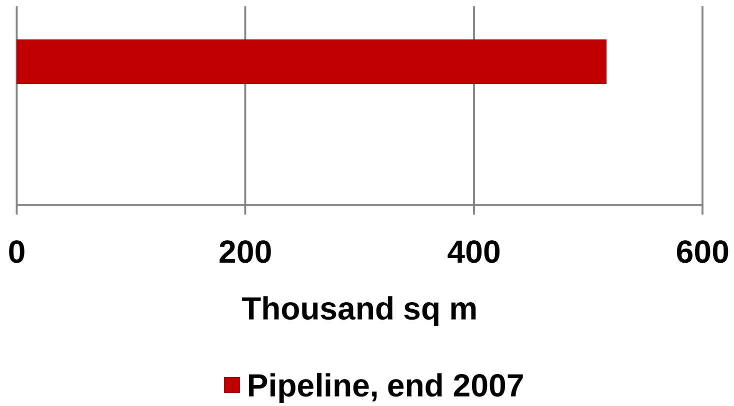

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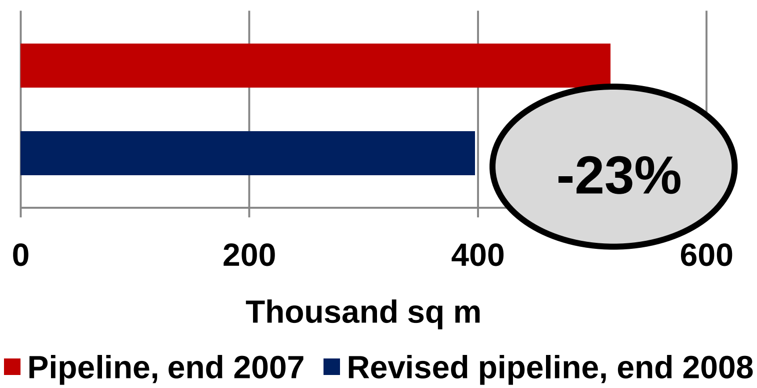

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Vertikal on Moskovskoe Highway/Proletarskaya St. (**19,600** sq m GLA)
Rubin on Kahovskaya St.,26 (**47,000** sq m GLA)

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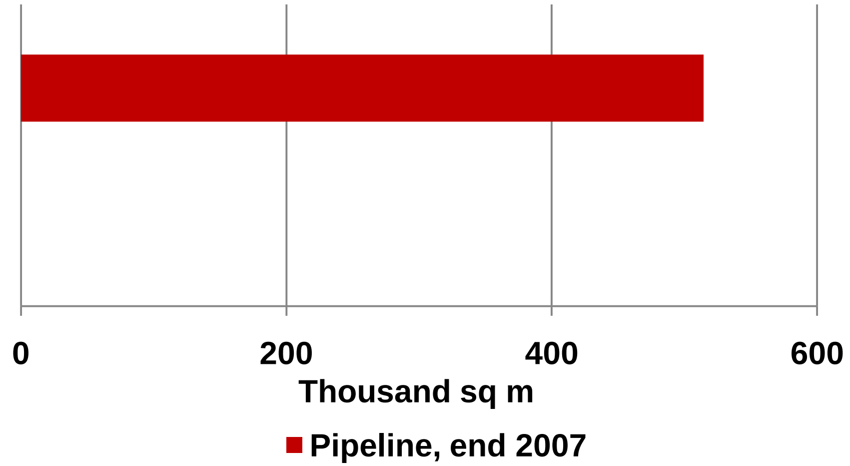

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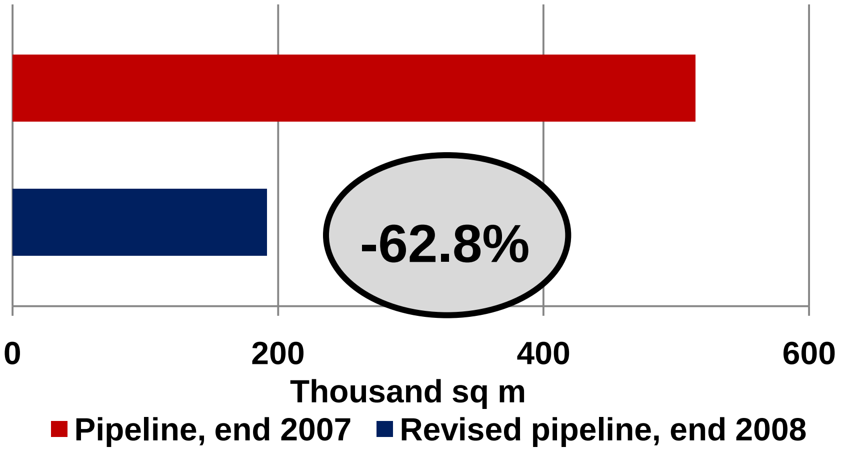

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Chelyabinsk

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Fiesta on Molodogvardeitsev St.,7 (**43,000** sq m GLA)

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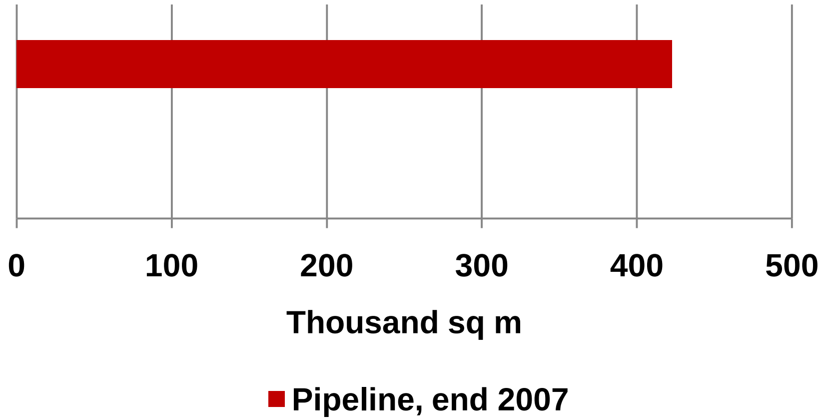
Chelyabinsk SC on Vostochnoe Highway (**120,000** sq m GLA)



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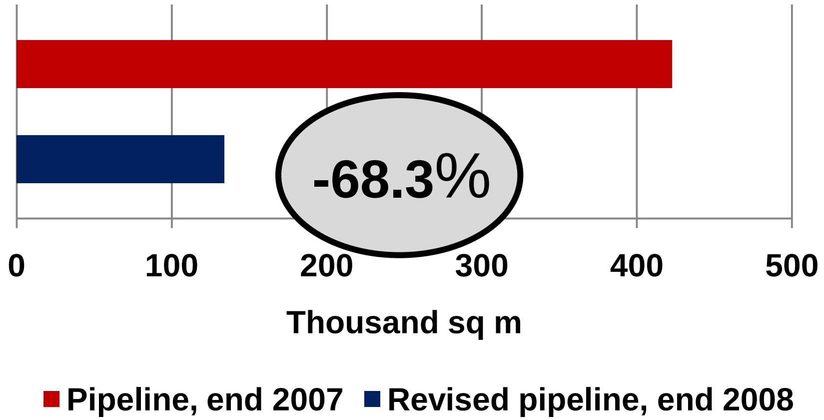

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Rostov-on-Don

EXAMPLES OF PROJECTS UNDER CONSTRUCTION

Golden Babylon on Malinovskogo/Eremenko St. (**52,000** sq m GLA)
Megamag on Poymennaya St., 1 (**62,000** sq m GLA)

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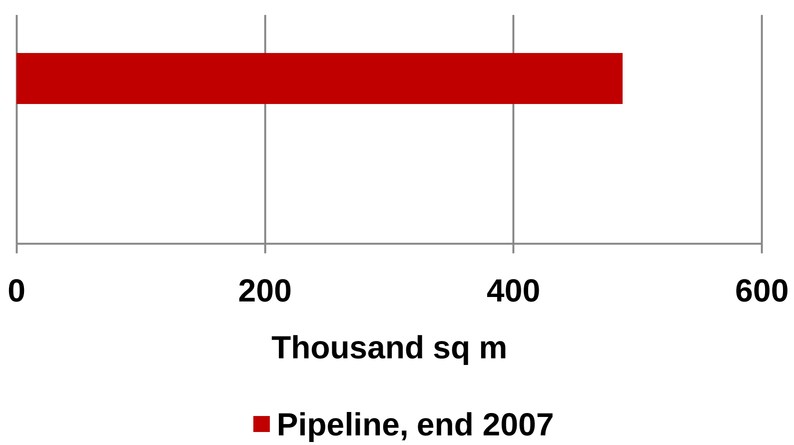

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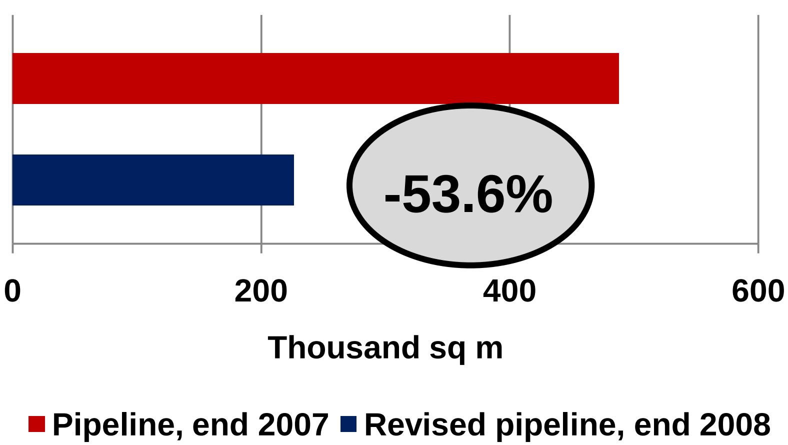

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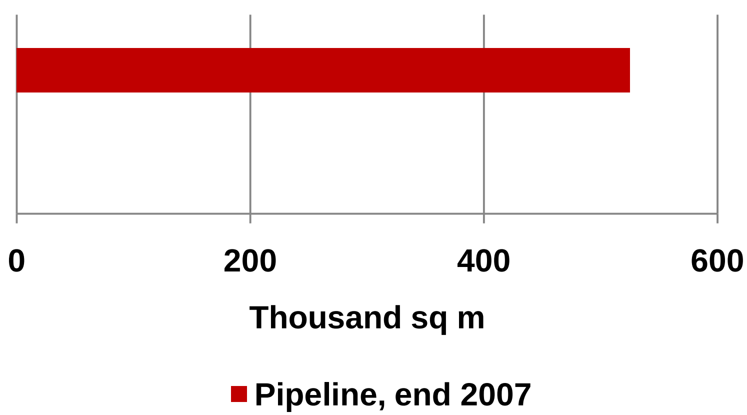
Omsk

EXAMPLES OF PROJECTS UNDER CONSTRUCTION

MEGA on Arkhitektorov Blvrd (**80,000** sq m GLA)

EXAMPLES OF PROJECTS DELAYED OR FROZEN

TK SC on Koneva/Lomarova St (**98,300** sq m GBA)
Arena Mall on Lukhashevicha St. (**103,000** sq m GLA)



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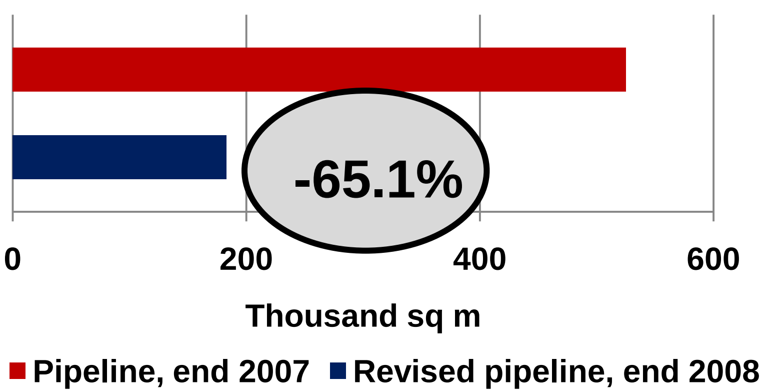

Source: DTZ Research

Krasnodar

EXAMPLES OF PROJECTS UNDER CONSTRUCTION

OZ on Krasnodar-Kropotkin Highway (**80,000** sq m GLA)
Galaktika on Stasova St.,178 (**82,000** sq m GLA)

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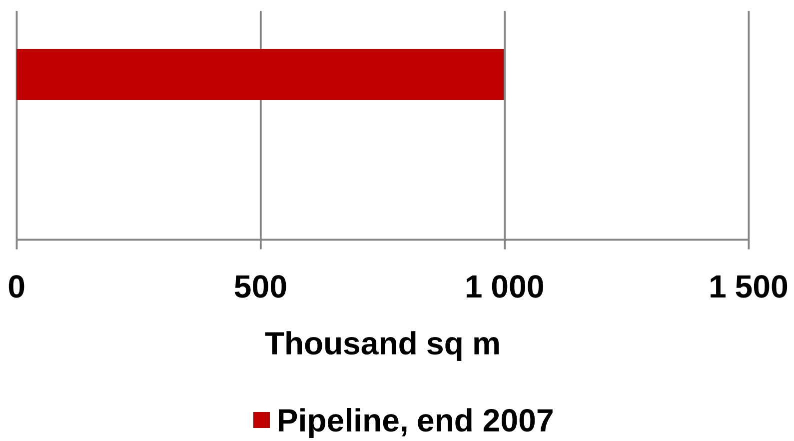
Kontinent on Krasnaya St/Dlinnaya St. (**50,000** sq m GLA)



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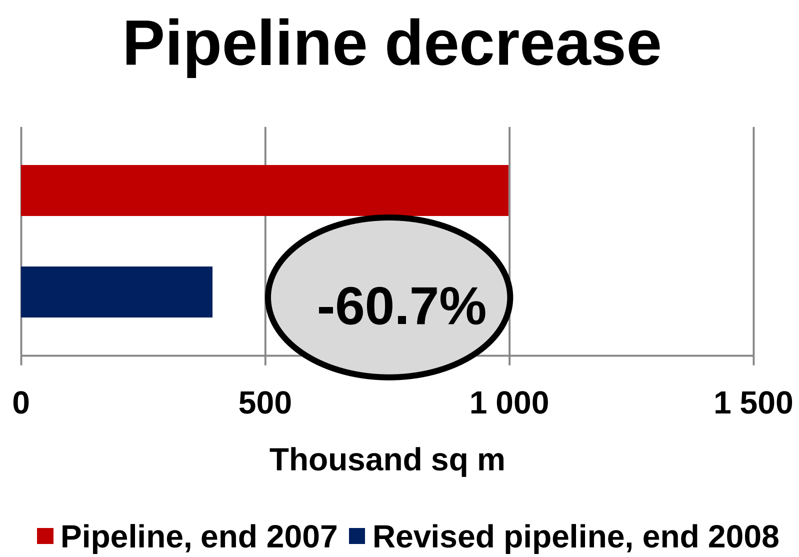

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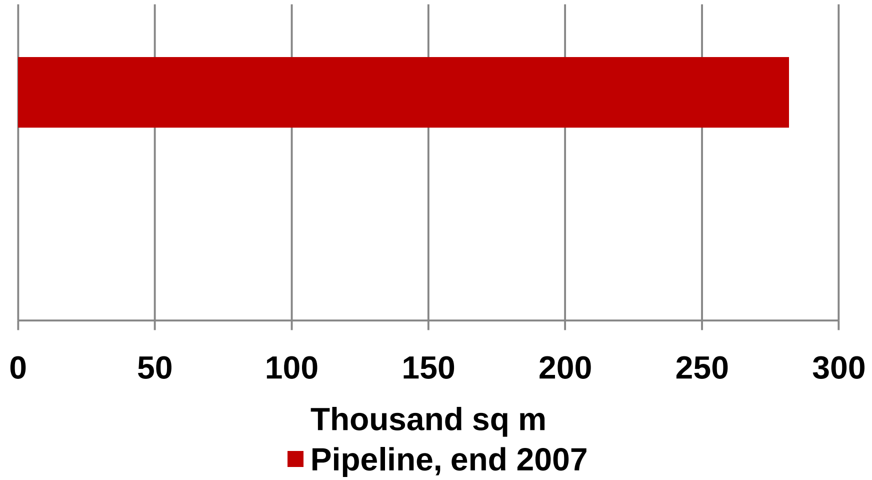
Krasnoyarsk

EXAMPLES OF PROJECTS UNDER CONSTRUCTION

Ogni on Belinskogo St. (**42,200** sq m GLA)
June on Partizana Zheleznyaka St. (**50,000** sq m GLA)

EXAMPLES OF PROJECTS DELAYED OR FROZEN

SC on Partizana Zhelyaznyaka St. (**65,000** sq m GBA)
SC on 9 maya/Komsomolsky Avenue (**22,000** sq m GLA)



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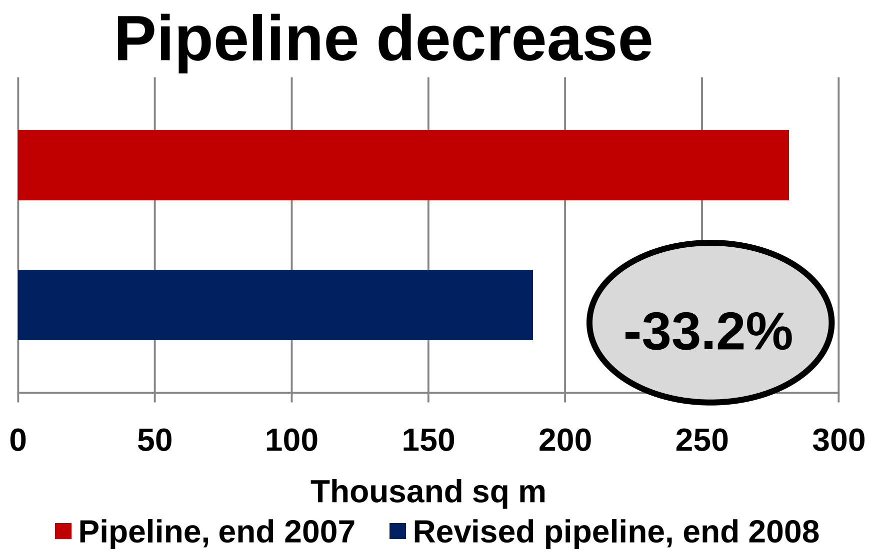
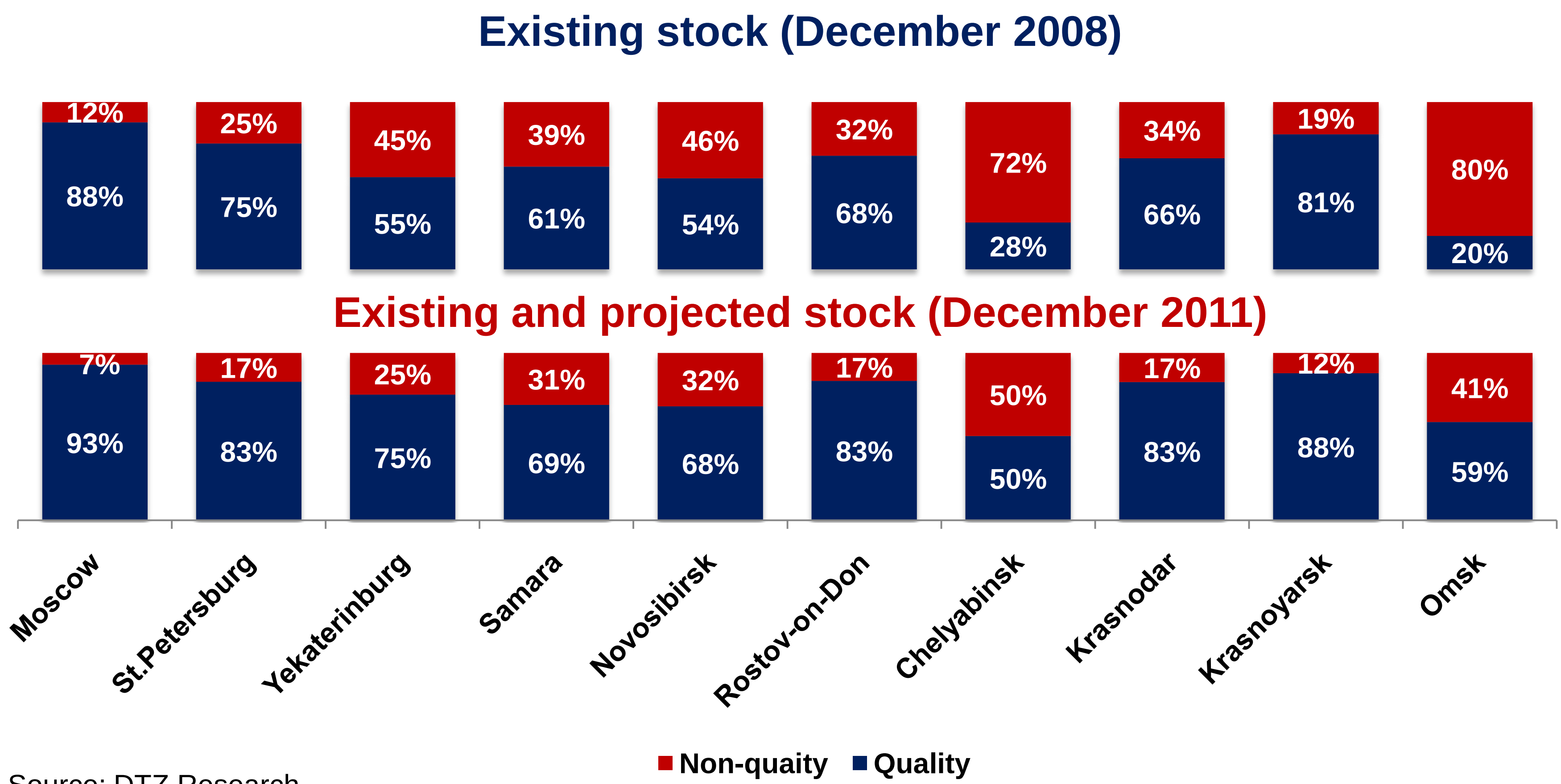


Source: DTZ Research

Structure of existing stock and development pipeline



Source: DTZ Research

Quality shopping center is a retail property that is planned, built and managed as a single entity, comprising a professional concept and tenant mix, with a minimum gross leasable area (GLA) of 5,000 sq m

Demand - Tenants

1. **Non-food retailers most affected by downturn**
2. **Lack of funding puts regional expansion plans on hold**
3. **Landlords resisting downward pressure on rents**

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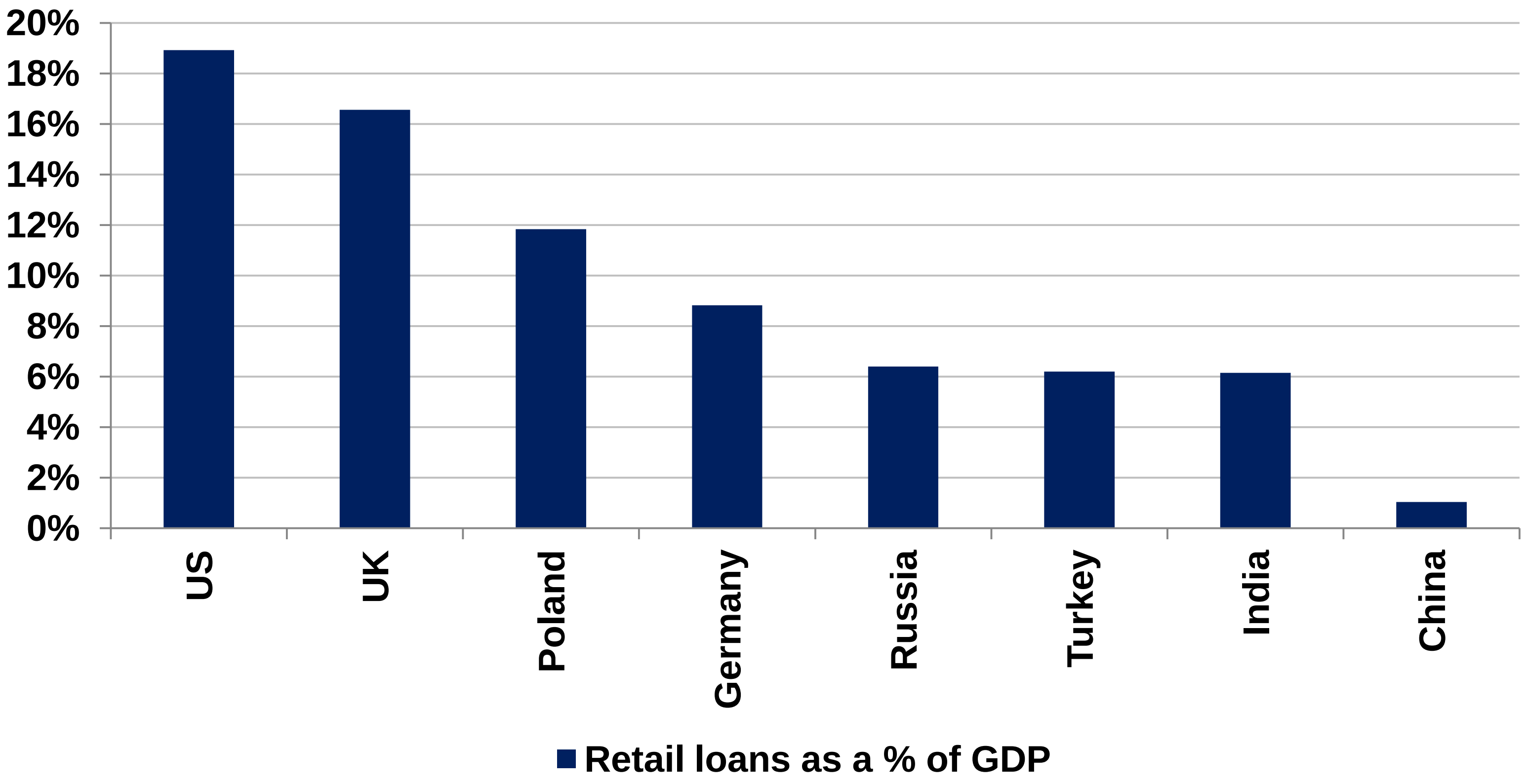
Demand - Consumers

1. Credit purchases hit the hardest

2. Consumers trading down – especially in Regions

3. Aspirational consumer culture persists

The underleveraged Russian consumer



Source: Merrill Lynch

Conclusions

- **Russia's financial crisis has dramatically changed the retail development landscape, leading to the near-total disappearance of construction finance.**

- **Development pipelines, particularly in regional cities, have been scaled back sharply, with supply in 2009-11 contracting by as much as 70%.**

- **Only the best located schemes with quality tenant mixes are most likely to be delivered, although further delays are probable.**

- **Tenant and consumer demand are likely to weaken noticeably, but Russian consumers will be less affected due to very low levels of indebtedness relative to their western counterparts.**


Thank you
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World Class Solutions
Over 9000 people operating from 192 offices in 40 countries

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