



MARKETBEAT

RUSSIA RETAIL SNAPSHOT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



Q3 2011

OVERVIEW

According to the Federal Statistics Office (Rosstat), GDP grew 3.4% year-on-year in the second quarter. Inflation continues to outstrip growth, but has slowed in recent months. Retail sales volume increased by 7.8% year-on-year in August, 5.7% in July and 5.9% in June. Sales have been growing continuously since the beginning of the year; indeed, between January and August, volume increased by nearly 6% relative to the corresponding period of 2010.

OCCUPIER FOCUS

Several new entries were reported in recent months and many major international players are in expansion mode. Vacancy in established shopping centres in the capital stands at less than 1%, while new schemes continue to attract considerable interest. Demand for space in Russia's regions is rising steadily, with retailers increasingly looking to expand beyond Moscow and St Petersburg. Prime rents were stable over the quarter across all sub-sectors after the growth seen earlier this year.

On the supply side, major new shopping centres recently opened in Ufa, St Petersburg, Chelyabinsk and Yaroslavl; no openings were recorded in the capital. While the shopping centre pipeline remains healthy, many openings have been postponed to next year; as a result, this year's completion total is likely to be around a third lower than originally predicted.

INVESTMENT FOCUS

Whilst interest in prime assets remains strong, activity continues to be constrained by limited supply. Nevertheless, availability has improved this year on the back of a recovering occupier market and more attractive pricing, with landlords increasingly willing to dispose of retail products. Retail investment volume in Q3 totalled more than €900m, the highest quarterly total since late 2007. Prime yields held firm across all retail sub-sectors.

OUTLOOK

Although limited growth in real incomes may impact on consumer spending in the future, the outlook for the retail market is positive, with many retailers looking to expand their presence in Russia. The focus of occupier activity is likely to shift further towards the large regional cities, many of which still are still underserved by modern retail space. Restrictions on construction within Moscow's Third Transport Ring mean that most planned projects in the capital are unlikely to go ahead. New retail formats, such as factory outlet centres, department stores and retail parks have recently been introduced to the market, and are expected to gain in popularity.

MARKET OUTLOOK

PRIME RENTS:	Stable overall, although growth possible in top locations, particularly Moscow.	➔
PRIME YIELDS:	Further compression likely.	➡
SUPPLY:	Rising in the regions, but falling in Moscow as restrictions on development take their toll.	➔
DEMAND:	Strong, with many retailers in expansion mode.	➔

PRIME RETAIL RENTS – Sep 2011

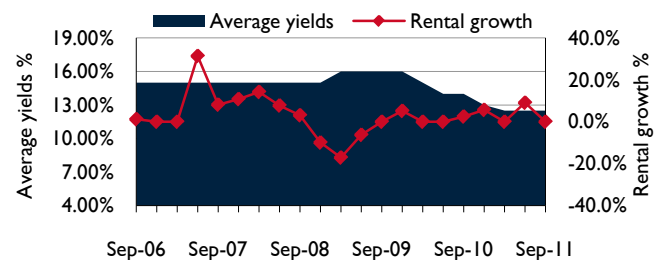
HIGH STREET SHOPS	US\$ sq.m/yr	€ sq.m/yr	US\$ sq.ft/yr	Compound (p.a)% growth 5yr	1yr
Moscow					
Tverskaya	4,500	3,354	418	10.0	12.5
Novy Arbat	2,500	1,863	232	2.6	0.0
St Petersburg	2,500	1,863	232	35.4	25.0

PRIME RETAIL YIELDS – Sep 2011

SHOPPING CENTRE (Gross)	Current Quarter	Last Quarter	Last Year	4 Year High	Low
Moscow	9.50	9.50	11.00	13.00	8.50

With respect to the yield data provided, in light of the lack of recent comparable market evidence in many areas of Europe and the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

RECENT PERFORMANCE – HIGH STREET SHOPS



Source: Cushman&Wakefield LLP. 2011

For further information, please contact our Research Department:

Cushman & Wakefield LLP
43-45 Portman Square
London W1A 3BG

www.cushmanwakefield.com

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