

RETAIL MARKET

Q1 2015

Accelerating success.

Supply

Q1 2015 did not bring new shopping centres to the St. Petersburg market. The total stock of quality retail space in St. Petersburg by the end of Q1 2015 equalled 3.52 million m², major part of which accounted for shopping centres (2.64 million m²). Second place take hypermarkets (460,000 m²), DIY and furniture centres occupy less space (253,000 and 190,000 m² respectively). The shopping centre provision in St. Petersburg is equal to 513 m² per 1,000 inhabitants.

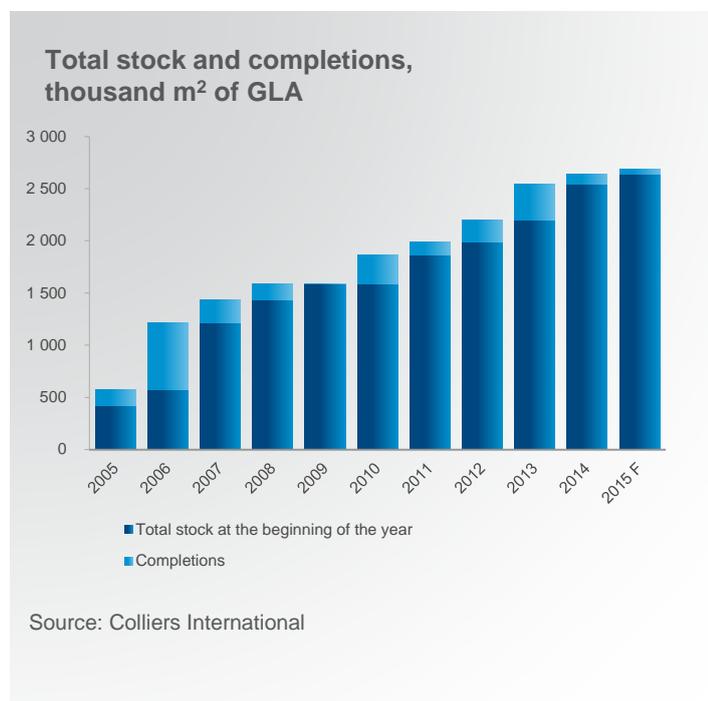
Herewith, the volume of retail space under construction and future commissioning in 2015–2016 remains the lowest in the past five years. Future supply is represented by few projects, predominantly of neighbourhood and community level. The largest project under active construction is SEC Okhta Mall, announced for opening in 2016. Among the nearest openings Outlet Village Pulkovo developed by Hines company should be mentioned. This project, planned for opening in Q3 2015, will become the first professional outlet centre in St. Petersburg.

Retail properties, scheduled for opening in 2015			
NAME	ADDRESS	GBA, M ²	GLA, M ²
Parnas	4 th Verkhniy ln., lot 1	15,000	9,000
Piter Raduga, Phase II	14, Kosmonavtov pr.	43,350	27,000
Outlet Village Pulkovo, Phase I	Pulkovskoye hwy., near bld. 56	16,000	15,000
Total		74,350	51,000

Source: Colliers International

Key market figures in Q1 2015	
INDEX	VALUE
Modern retail facilities stock, million m ² (GLA), including:	3.5
- shopping centres, million m ²	2.6
- hypermarkets, million m ²	0.46
- specialized SC (DIY), million m ²	0.25
- specialized furniture SC, million m ²	0.19
Shopping centres provision, m ² (GLA) per 1,000 capita	513

Source: Colliers International



Source: Colliers International

Demand

Figures for beginning of 2015 published by Petrostat show decrease in retail turnover compared to the beginning of the previous year by 10% in comparable prices. Sales boom in December 2014 switched to cooling down demand in the beginning of this year. Customers demand is partly stimulated by season and end-of-season sales, however with the increase in prices we expect further decline of sales volume in goods volumes terms.

Business optimisation process for retailers was developed by one of several scenarios. Some operators cut their expenses (advertising costs, rent costs, etc.) and remained in their usual price category. At the same time some retailers increased their prices for goods, transferring their costs on buyers. Several retailers have also maintained purchase prices at the comparable to the previous level, that also allowed them to increase customer prices insignificantly.

Rental rates

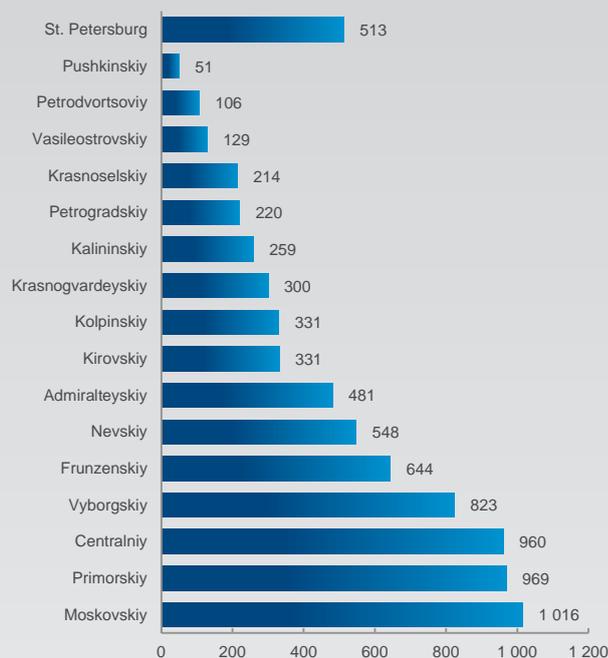
Commercial terms under current lease agreements are being corrected. Fixing the exchange rate level for the following 6–12 months, linking of lease payments to actual turnover and occupancy of the shopping centre, absence of indexation for 2015, discounts for the current year – all these instruments are becoming more and more popular during negotiations between owners and tenants of existing shopping centres.

Trends and Prognosis

Tenants rotation in shopping centres, including the highest-quality properties, still continues. We expect that in summer and autumn this year, tenants, including anchor tenants, will start active moving out from low-quality shopping centres. As a result, current vacancy level of 6–7% will be increasing until the year-end.

Despite the current instability, small local shopping centres are announced in the market, however, by the moment such projects exist just on paper. Regarding previously announced major shopping centres projects construction of which has not started yet, developers will postpone their start until stabilisation of the situation.

Retail stock per 1,000 capita by St. Petersburg districts, m² of GLA



Source: Colliers International

Rental rates for tenants by type		
TENANT PROFILE	STANDARD AREA, M ²	RATE, \$/M ² /YEAR*, **
Food hypermarket	8,000-12,000	160-250
Food supermarket	1,500-3,500	250-450
DIY hypermarket	>10,000	120-170
Home appliances & electronics	2,500-4,000	160-180
	1,200-2,500	250-400
Sporting goods	1,200-2,500	180-350
Children's goods	1,000-2,000	250-400
Multiplex cinema	3,000-5,000	140-220
Children entertainment	1,000-5,500	100-180
Shopping gallery tenant	1,200-3,000	200-350
	500-1,200	350-600
	250-500	600-1,000
	100-250	800-1,300
	50-100	1,200-1,800
	<50	1,500-2,500
Restaurant	250-500	300-500
Cafe	80-160	1,200-2,000
Food court	90-130	1,000-1,300
	40-70	1,500-1,800

* – In the case of fixing the \$ rate in lease agreements at the level of 40 roubles.

** – Rates exclude OPEX, and exclude VAT

Source: Colliers International

Street-retail

Situation in the street-retail market in the beginning of 2015 reflected general trends observed at the end of 2014: increasing number of vacant premises, closing shops of several major retailers in central corridors of St.

Petersburg. For example, flagship stores of HTC, Ecco, Beeline, Zenith, Vis-A-Vis and some other were closed. The slowdown of development was noted for banks, some of which continued closing their branches and optimising their street-retail presence, for example, Raiffeisen Bank, Russian Standard Bank, Bank of Moscow, Svyaznoy Bank.

In Q1 2015, the most active retailers in terms of developing new stores were grocery retailers of middle price segment, for example, Lime and SPAR, operators of goods for children, and home appliances and electronics (white&brown) shops. Cafes and restaurants, first of all chains, and alcohol shops continue their development.

During Q1 2015 tenants rotation in the major corridors of St. Petersburg equaled approximately 20%. Some retailers, using the possibility to rent premises for lower price, consider opening their flagship stores in the central part of the city in the nearest future. In general, among developing tenants during Q1 the most popular premises were ones with the total area of 200–500 m² in the central part and large premises of more than 1,000 m² in non-central residential areas of St. Petersburg.

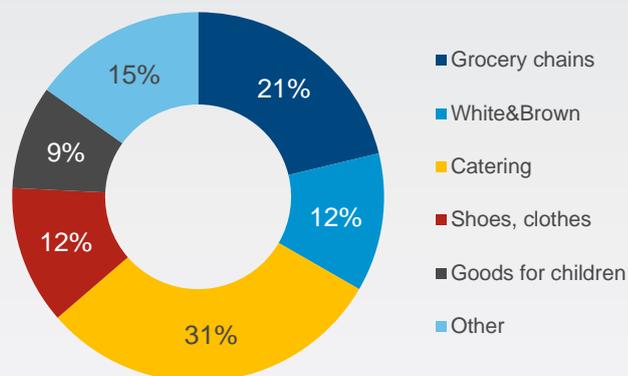
During last six months asking rental rates denominated in roubles decreased by 20–30% in average for central corridors, including liquid premises. Exposure period for overestimated premises may vary from 4 to 6 months and more.

Rental rates for major central corridors

MAJOR CORRIDORS	ASKING RENTAL RATES, RUB/M ² /MONTH
Nevskiy pr.	5,000 - 15,000
Vosstaniya st.	1,750 - 5,000
Ligovskiy pr.	2,000 - 5,000
1 st Krasnoarmeyskaya st.	2,500 - 5,000
Moskovskiy pr.	750 - 6,500
Zagorodniy pr.	1,500 - 3,500
Vladimirskiy pr.	2,500 - 6,000
Rubinshteina st.	1,850 - 3,500
Ital'yanskaya st.	1,500 - 3,000
B. Morskaya st.	1,500 - 5,500
M. Morskaya st.	1,500 - 5,500
B. Konushennaya st.	3,000 - 11,000

Source: Colliers International

Requests by tenant type, %



Source: Colliers International

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