

RUSSIA

Retail Market Snapshot

Fourth Quarter | 2018



MARKET INDICATORS

Market Outlook

- Prime Rents:** Prime rental rate indicator is expected to show a slight growth.
- Prime Yields:** The growth is expected next year due to investment market compression.
- Supply:** Vacancy rate will remain at the level of 2018 – around 9%. Construction activity will speed up.
- Demand:** Retailers show cautious optimism in expansion plans, the most active are large federal operators.

Prime Retail Rents – December 2018

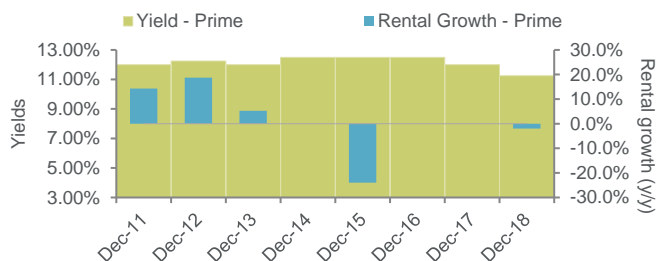
| HIGH STREET SHOPS | RUB | € | US\$ | GROWTH % | |
|-----------------------|------------|------------|-------------|----------|-------------|
| | SQ.M YR | SQ.M YR | SQ.FT YR | 1YR | 5YR CAGR |
| Moscow (Stoleshnikov) | 200,000 | 2,652 | 280 | -2.0 | -5.7 |

Prime Retail Yields – December 2018

| SHOPPING CENTRES (FIGURES ARE GROSS, %) | CURRENT Q | LAST Q | LAST Y | 10 YEAR | |
|--|--------------|-----------|-----------|---------|------|
| | | | | HIGH | LOW |
| Country prime | 9.25 | 9.50 | 10.50 | 13.00 | 9.00 |

With respect to the yield data provided, in light of 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



Overview

In 2018, the retail turnover showed consistent growth. However, in 2019 this trend will change - low growth of personal income, VAT increase with the following rise of prices will result in the slowdown of consumer market.

Occupier focus

In 2018, new construction reached the minimum figure in the last 10 years - 483,000 sq. m of retail space was delivered to the Russian market. In Moscow the construction volume has also reached historical low. This allowed new shopping centers to reach high occupancy rate in a short period, which resulted in average vacancy rate decrease by the end of the year.

The number of neighborhood retail schemes is increasing, especially in Moscow. Smaller shopping centers are more sustainable in volatile market conditions.

Small formats are also popular with retailers. Even operators that traditionally had only large-size stores, are now moving to mini-formats (e.g. IKEA, Leroy Merlin, OBI) in order to be closer to customers and to be able to have locations in any type of retail schemes.

Against the background of weak consumer market, the majority of retailers have conservative expansion plans. However, several federal and international chains are developing rather aggressively – both by opening new stores and taking over other market players, taking advantage of the low market.

Investment focus

In 2018, the total investment volume in Russia reached historical minimum of 1.6 bn EUR. The retail segment covers 22% of total volume with no presence of foreign capital.

Outlook

In 2019, we expect new construction to grow and reach around 700,000 sq. m of retail space in Russia.

In Moscow, several large-scale projects are planned for the delivery next year, so the vacancy rate will slightly increase and remain at the average level of 2018 – around 9%. Average rental rate will remain stable, slight increase is possible in prime shopping centers.

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