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monatsnachrichten

The Russian Fashion Retail Market

macro-economics / consumer behaviour/ retail development/ commercial real estate

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Issues addressed in this September/October edition 2010

1) Economics

1.1. Key Macro-Economic Indicators for 3rd Quarter 2010
www.cisstat.com/eng/rus.htm

The improvement of the main macro-economic indicators in Russia observed since the first two quarters of this year continues. From July till September 2010 industrial production in Russia rose by 8,9 %, capital investments increased by 3,8 %. Retail trade turnover accelerated growth at 4,4 % after 3,4 % over the second quarter. Consumer price index slightly decreased from 6,6 % registered for the second quarter to 6,4 %. Russian imports from outside the CIS rose by 34,9 % against 28,6 % from April till June 2010. Exports to markets outside the CIS kept increasing as well at a slightly reduced rate of 43,7 % compared to 54,3 % over the second quarter of this year. Unemployment continued to decline from 1,866 million people at the end of June 2010 to 1,598 million persons at the end of September of the current year, representing a decrease of 14,4 %. The average exchange rate of the Russian Rouble against the US $ was held comparatively stable over the past nine months. Whereas in January RUR 30,43 were paid for one US $, the exchange rate remained almost unchanged in September at RUR 30,40 per one US $. Development of the Gross Domestic Product for the third quarter of this year has not been published yet.

1.2. Real Income rose by 5 Percent over first six months
Germany Trade & Invest / Social Indicators, First Semester 2010

Whereas real income in Russia kept rising from 2002 till 2007 at an average rate of 12,2 percent this indicator depreciated to a growth rate of 3 % in 2008 and 2 % in 2009. Over the first six months of this year real income recovered at a growth of 5 %. Thanks to the stronger Rouble average salaries and wages converted in € rose by 31 %, or, in absolute figures by 533 Euros , representing a substantial increase of purchasing power of employees earning their pay in Euros. Based on Roubles the real increase of salaries and wages accounted for just 6,6 %.

1.3. Russian Apparel Market to reach 2008 Turnover by End 2012
6 October 2010, Fashion Consulting Group (FCG)/ ITMM

According to a statement of Anna Lebsak-Kleimans, CEO of Fashion Consulting Group (FCG), Moscow, the retail market value of clothing is expected to rise in between 1 % to 4 % in 2010, by 2 % to 5 % in 2011 and by 8 % to 10 % by the end of 2012. Base figure for such projection on total of sales is an estimated € 31,5 billion for 2010. In 2008 retail sales of clothing reached a value of around € 37,0 billion. If the forecast by FCG comes true, the Russian clothing retail market value should progress to € 36,4 billion, almost reaching the turnover registered in 2008.
Such results of research by FCG were presented at the bi-annual meeting of ITMM's Industry task force Russia on October 6, 2010 in Düsseldorf, where the leading German Fashion Brands regularly congregate to exchange experience on the development of the Russian Fashion Market.
As Anna Lebsak-Kleimans further explained, the price segmentation of the Russian Apparel Market has been substantially affected by the economic

crisis last year. Whereas the upper-to high positioned price level accounted for a share of 15 % against the total clothing retail market value, this share came down to 10 % in 2009. The medium-to-upper medium priced segment decreased from a share of 35 % to 30 %. Opposite to such losses of share the low priced segment including the mushrooming number of discount outlets increased its position from 50 % in 2008 to 60 % of the total Russian clothing retail market value. As a result western European clothing suppliers suffered most from the structural changes, loosing an estimated 30 % of their original market share. In 2009 winners of the situation are Chinese low priced garment and private label suppliers to the Russian retail chains.

According to FCG it will take another two years for the Europeans to recover their market share. A prerequisite for this process is substantially rising salaries and wages of the middle class in the provincial cities, which lost their financial status due to crisis effects. As experts say growth of income necessary to rebuild stronger purchasing power requires an average rise of annual income of more than 10 % real, each consecutive year.

1.4. Astonishing Pre-Order Results for Season S/S 2011

6 October 2010, ITMM

In a survey conducted by ITMM GmbH, Stuttgart, a stocktaking was made on the results of pre-order placements of Russian retailers with key German Fashion Brands for the retail season Spring/Summer 2011 over the period from July to mid-September 2010. As a result German brands actively selling in Russia since 15 years reached average pre-order increases of in between 5 % for classic men's wear and 15 % for casual men's wear. Women's wear brands reported on average growth of in between 15 % and 30 %. Similar pre-order results were registered by lingerie and children's wear suppliers. This growth compares to the pre-order phase for the retail season S/S 2010, during which the majority of German fashion brands registered average losses of pre-order placements at 20 %. The main reason for the significant turn-around of pre-order placements for S/S 2011 is explained by the fact, that a broad majority of Russian retailers cleared all leftovers and stocks of summer wear carried over from two years before. Summer retail sales of clothing were positively influenced by the exceptional heat period in Russia from mid-June to mid-August of this year.

1.5. Visitor Attendance to CPM up by 13 Percent against September 2009

6 October, 2010, Igedo Company

The 15th consecutive edition of Collection Premiere Moscow (CPM) from September 6-9, 2010 has registered an unexpected growth of 18.300 visitors, up by 13 % compared to the September edition in 2009. According to the official visitor survey published on www.igedo.com/CPM/VisitorSurvey, 50 % of the visitors attended from Moscow City, further 8,5 % from Moscow Region. An additional 33,7 % of visitors stemmed from the Russian Regions with Central Russia (9,2 %) and Volga (6,7 %) in the lead, followed by the North-West region including

St. Petersburg (5 %) and South Russia (3,7 %). Visitors from the CIS-republics and other foreign countries reached a share of 7,6 %. As the survey also reveals, quality in terms of business status of visitors has considerably improved. Owners and Managing Directors accounted for a share of 53, 8 %. Division Managers, Purchasing Managers/Buyers and Store Managers among visitors represented a portion of 38,3 %. The balance of 7,9 % included Heads of Sales Staff, Designers and Media Representatives.

1.6. European Clothing Exports to CIS flattening Decline Rates

26 October, 2010, ITMM

According to a survey on the development of clothing exports from the 27 member states of the European Union to Ukraine and Kazakhstan, Belarus and Azerbaijan, the sharp decline of deliveries to such CIS-Republics valid for last year has stopped over the first six months of 2010. This survey is conducted regularly on a bi-annual basis by ITMM on behalf of IGEDO company.

- ***EU-Clothing Exports to Ukraine***

After two years of political instability and heavy turbulences caused by the financial crisis for its economy, Ukraine remains the second largest CIS-Export market for EU-based clothing exporters, after Russia. Over the first semester GDP of Ukraine saw an increase of 5 % after a sharp decline since 2008. The recovery of the country has not yet had a positive impact on the development of EU clothing exports. However, the decline of apparel supplies from the EU-15 flattened at a rate of 12 % compared to a slump of 35 % over the first semester 2009 against the same period of 2008. The value of shipments of textile clothing reached an amount of € 127,7 million at the end of the first six months of this current year.

As far as the export performance of clothing from the traditional **EU-15 Member States** to Ukraine is concerned, **Italy** as the most important supplier shipped clothing worth € 74 million to this country, representing a decline of 12 % compared to the first semester of 2009. **Germany** followed as second largest Western-European exporter to Ukraine at a decrease of 15 % to a value of € 23,8 million. **France** ranked third (-6 % to € 14,6 million). Best performer was the **United Kingdom** (+10 % to € 4,1 million). Worst performers were **Austria** (-49 % to € 1,9 million) and **The Netherlands** (-40 % to € 2,3 million).

- ***EU-Clothing Exports to Kazakhstan***

Kazakhstan, the central Asian giant in oil and gas exploration has weathered the world economic crisis fairly well after it suffered under its own home made crisis of the real estate sector, three years ago. Private consumption of clothing is set for new growth, very much in parallel to what is happening in Russia.

EU clothing exports to Kazakhstan fell by 8 % over the first six months of this year against the same period of 2009 reaching a total of € 46,8 million. This figure includes both, shipments from the traditional Western

Member States of the EU (EU-15) and exports stemming from the new Eastern Member States, whose share against the total is just 4,3 %. Although **Italy** is in a pole position as EU-15 fashion supplier for Kazakhstan, the first semester of this year saw a strong decline of Italian deliveries by 21 %, which represents a value of € 21,4 million. **Germany**, ranking second, attained a small growth in its clothing exports to Kazakhstan figuring at 1 % (€ 11 million). **France**, the third important European Supplier, performed a sudden growth of 21 % and reached € 6,9 million. **Spain** was good for the highest growth rate accounting for 213 % (€ 1,1 mn.), followed by the **United Kingdom** (+39 % to € 1,2 mn.). Among the worst performers were **The Netherlands** (-36 % to € 2 mn.) and **Austria** (-35 % to € 0,6 mn.).

- ***EU-Clothing Exports to Belarus***

Since the beginning of this year, Belarus forms a custom's union with big brother Russia. Clothing brought into Belarus is supposed to circulate free from here to Russia and to Kazakhstan, the third partner of the custom's union. Different to other Eastern clothing markets Belarus is a playground for neighboring Eastern Member States of the EU enlargement, like the Baltic Republics and Poland. Such countries shipped more clothing to Belarus then the traditional Western member States of the EU-15. Order values delivered from the Eastern Member States to Belarus accounted for € 11,8 million over the first six months of this year compared to € 10,7 million supplied by the EU-15. As in Russia the impact of the financial crisis was bad for Belarus but the country is on the way to recovery.

The number one fashion supplier of Belarus within the Member States of the EU-15 is **Italy,** although shipments declined by 10 % to € 4,85 million. The second place is kept by **Germany** despite a significant decrease of clothing exports by 33 %, representing a value of € 3,14 million. The **U.K.** ranges third at an amazing 18-fold surge of sales worth € 0,91 million. Other countries like France, Belgium, Denmark, Spain and Austria were in a position to increase their shipments to Belarus as well but from a low base at two to higher three-digit growth rates.

- ***EU-Clothing Exports to Azerbaijan***

Azerbaijan, although a small country positioned between Central Asia and the Caucasus, has a reputation for a fashion conscious population. Most better to well off consumers live in Baku, the Mediterranean style capital located on the North Western coast of the black Sea, with a population of around 2,4 million inhabitants. Baku's city center allocates an ever growing number of high end mono-and multi-brand fashion stores inviting affluent, rich and better-to-well off consumers, who earn their living from the petroleum and gas industry centered here.

European clothing exports to Azerbaijan increased by 15 % over the first semester 2010 against the same period of 2009, representing a shipment value of € 21,237 million. 65 % of the fashion business with Azerbaijan is in the hands of **Italian** suppliers, further 11 % of clothing exports went on the account of **Germany**, 9 % was delivered by brands from **France** and 8 % by the **United Kingdom**. Whereas Italian suppliers registered a growth of 16 %, France attained an increase of 49 % and UK fashion exports surged by 71 %. German suppliers saw a moderate decline of their export business with Azerbaijan at 4 %.

2) Consumer Characteristics

2.1. Russian Consumer Confidence still volatile

October 6, 2010, FCG/ October 12, 2010, russiaretail / Rosstat

The Russian index of consumer confidence which is monitored on a quarterly basis since 2003 started off at –12 and reached its climax in 2007 at +/- zero. It never climbed above zero, not even over the boom phase. In 2008 the index went down to –2 and it plummeted to an unprecedented low of –32 in the crisis year 2009. According to Fashion Consulting Group, Moscow, worst affected consumers were those with an annual income of up to € 18.000, including middle-management employees at banks, financial companies, real estate developers such as retail sales personnel and factory workers.Although employment at the lower-to-medium income level has improved over the first nine months, Russian consumers still feel unsecure about Russia's future economic recovery. During the first two quarters of this year, the index of consumer confidence rose to –7, but it dropped by 4 points to –11 in the third quarter of 2010. As published by the Russian Federal State Statistics Service (Rosstat) a further index, called Economic Changes Expectation Indicator, which had reached +5 in the second quarter depreciated to –4 over the third quarter of this year, the lowest level of this indicator since 2005. A key problem among Russian consumers remains their uncertainty in regard to inflation. 98 % of consumers surveyed by Rosstat expect prices to drive upwards.

2.2. Post Crisis Consumer Behaviour focusing on Bargains

October 6, 2010, FCG

According to a presentation of Anna Lebsak-Kleimans , CEO of Fashion Consulting Group, Moscow, in front of key German Fashion Brands in Düsseldorf, an estimated 60 % of Russian consumers keeps paying attention to "SALES" signboards displayed at clothing shop windows. As a result of the crisis, search for bargains continues "Value for money" of a garment is the most important criterion for purchasing decisions. Seriously increased price awareness together with a strong rising demand for better service requirements at retail level are signs for a much more rational approach of Russian consumers towards buying clothing. So far "smart shopping" has become a commonly accepted and talked about virtue for Russian citizens. As Anna Lebsak-Kleimans further explained, the re-discovery of shopping pleasure developed rather slowly over the past nine months of this year. She also said that this behaviour is spreading among female consumers particularly who were forced to defer purchases of fresh women's wear in 2009, due to the priority of saving.

2.3. Personal Income Distribution in twelve Secondary Russian Cities

October 6, 2010, FCG/Rosstat

In a recent study categorizing Russian cities according to the post crisis disposable income situation of inhabitants, Fashion Consulting Group (FCG) analysed a total of 46 cities, including Moscow. FCG distinguishes three categories: Primary cities, Secondary cities and Tier cities. The first category includes 18 cities with a population of more than 1 million in which prospects for clothing consumption are high: Moscow, St. Petersburg, Smolensk, Rostov-on-Don, Krasnodar, Saratov, Samara, Perm, Ufa, Orenburg, Magnitagorsk, Chelyabinsk, Ekaterinburg, Tyumen, Surgut, Omsk, Novosibirsk and Vladivostok. Secondary cities showing a medium potential account for a population of more than 500.000 and include twelve cities: Vologda, Yaroslavl, Tver, Ryazan, Kursk, Voronezh, Nizhny Novgorod, Volgograd, Penza, Nabereshniye Chelny, Krasnoyarsk and Khabarovsk. The third category, tier cities with a population of more than 300.000 composes 16 cities where fashion retail prospects are still moderate but developing: Murmansk, Arkhangelsk, Petrozavodsk, Vologda, Lipetsk, Saransk, Irkutsk, Böagoveshensk and Yuzhno-Sakhalinsk.

As FCG concluded for 2010, Moscow has the highest disposable income status in Russia at US $ 10.588 per capita, followed by St. Petersburg (US $ 4.830), Samara (US $ 4.526), Perm (US $ 4.062), Ekaterinburg (US $ 4.057), Ufa (US $ 4.016), Omsk (US $3.711), Rostov-on-Don (US $ 3.408), Novosibirsk (US $ 3.402), Kazan (US $ 3.142), Nizhny Novogorod (US $ 3.117) and Chelyabinsk (US $ 3.025). All other cities subject to the three categories do not have reached the US $ 3.000 benchmark in their citizen's disposable income status.

2.4. Russian Consumers do not trust Advertising

October 22, advertology

According to a poll conducted in October 2010 by "All-Russian Public Opinion Research Center "(VCIOM) among 1.600 people in 138 cities on the impact of advertising on consumer purchasing, a large majority of Russians does not trust advertising. As the study revealed 62 % of persons interviewed do not believe in promises and expectations promoted by advertising. This attitude mainly applies to two thirds of elder people, three quarters of lower medium income recipients and to two thirds of people not using the internet. Respondents who direct purchases as a positive response to advertising belong to the group of young urban citizens (13 %), such as to the upper-to-high income class (20 %) as well as to internet users (16 %). In terms of gender 47 % of Russian women respond positively to advertising in their shopping behaviour from which more than half are younger aged. As far as male respondents are concerned 49 % answered that they never go shopping after having watched relevant advertising. More than three quarters of respondents represent a common view saying that advertising does not provide complete and accurate information on a product as well as it exaggerates benefits for the consumer and creates more illusions around a product that shopping reality proves.

2.5. Strong Attempts to attract the Middle Class to Luxury Goods

October 25, 2010 http://liveretail.ru/

"Do you have one more ticket for the show of Yudashkin?" – asks Anna, an accountant working in Moscow, in a wholesale company. She stands here since morning, hoping to quietly slip inside the show and see the show's favourite designer. Why? The answer is simple: Anna wants to keep an eye on a new dress: If I like something, I will order "inpodshiv", a brand of Yudashkin costing the accountant a month's salary, if not more. But Anna is determined: "I want a dress from maestro!"

On the other side of Moscow, Crocus Expo runs a public exhibition of perfumery and cosmetics: hundreds of people crowded around the stands with expensive luxury brands. October is the high season for the Russian luxury industry. In Moscow alone, two fashion weeks, Russian Fashion Week and Volvo Fashion Week passed, as well as Millionaire Fair and Intercharm, the professional cosmetics and perfumery trade show, not counting the number of smaller individual promotions and presentations in hotels and show-rooms.

At the end of 2008 the Russian luxury goods market collapsed due to a decrease of consumer demand by close to 50 % against 2007. The same happened to Valentin Yudashkin, Russia's most renowned luxury designer. However, since the beginning of 2010 the desire of Russians in luxury lifestyle products is back. Yudashkin reports that he is about to recover his pre-crisis sales. As luxury feeling begins with perfumes and cosmetics, Yudashkin prepares launching of his own line of cosmetics, targeting at the reviving middle class. Attracting such consumers to luxury brands always starts through perfumes and cosmetics and the attempt to accountant Anna to spend a month's salary on an exclusive luxury dress of Yudashkin is seen as a sign of people like her to enter the luxury market. Other luxury brands of fashion, such as Prada, are also counting on the revival of the Russian luxury market in exploring suitable store locations in Moscow and St. Petersburg, since a couple of moths.

3) Retail Development

3.1. Russia second largest target market for British MONSOON & ACCESSORIZE

Textilwirtschaft No.33

MONSOON/ACCESSORIZE Womenswear, Accessories and Kid's wear operates 1.138 stores in 6o countries accounting for an annual revenue of 750 million Euros. The privately held company was founded in 1973 when the first mono-brand store under the brand of Monsoon opened at Beauchamp Place in London. The first store under Accessorize was launched in 1984 with over 100 stores in the United Kingdom as the most important market. The company operates 20 stores in Moscow alone and further 29 in primary and secondary provincial cities, including Monsoon children's wear stores. According to Peter Ridler, Managing Director of the company, Russia is the strongest market after the U.K. This year, Monsoon Accessorize opened first stores located at the New MEGA malls in Almaty, Astana and Shymkent, developed by Astana Group. Most of international stores of Monsoon/Accessorize are run by store-partners and franchisees. Monsoon is based on two main collections for Spring/Summer and Autumn/Winter. Every month new themes are added. The collections are identical for all countries. Russia is the only market where special adaptions of styles to the climate are offered.

3.2. BoscoSport opening first Store of Olympic Clothing in Nizhniy Novgorod

September 3, 2010, malls.ru

Bosco di Ciliegi, one of the most renowned luxury fashion and accessory retailers in Russia, continues to develop its medium priced chain of Olympic sport clothing under the responsibility of its BoscoSport division. The city of Nizhniy Novgorod is a new destination for Bosco. As it was announced by the economic newspaper Vedomosti, the company leased 110 square meters on the ground floor of the shopping and entertainment center "Lobachevsky Plaza" at a rental fee of RUR 1.500 per square meter per month (€ 37,50 / US $ 50,00). Total investment in this object is estimated to account for RUR 4 million (€ 100.000 / US $ 133.000). As a novelty the store is open to franchisees which will have to pay a royalty of 5 per cent on the annual revenue to Bosco. Experts say that the merchandise will be delivered subject to a concession agreement under which payment by the franchisee is due after sales over the counter. The system by which Bosco creates a master store in a large city on its own account for local franchisees is most likely being multiplied by Bosco to other regional cities in Russia. At the beginning of September 2010, BoscoSport operates 8 own stores in Moscow and further 10 own and franchised stores in the regions. The company plans to implement several hundred stores of this type over the next three years, before the Olympic Winter Games start in Sochi in early 2014.

3.3. QUIZ Women's wear from Scotland entering Russia

September 28, 2010, malls.ru

The Russian clothing distributor, master franchiser and retailer Fashion Alliance is opening a first mono-brand store of the British women's wear brand QUIZ under an exclusive distribution agreement. Fashion Alliance belongs to Tashir Group, developer of the nation wide shopping and entertainment centers named Rio. This first store is located at the Rio multiple on Dmitrov highway at the intersection of Reutov, a suburb of Moscow. Fashion Alliance announced to launch four more stores of QUIZ in shopping malls of Tula, Belgorod, Vologda and Yaroslavl, all tier category cities for the development of retail facilities in the Russian regions. First stores of QUIZ opened in Scotland, U.K., in 1995. Meanwhile the global network of QUIZ composes more than 70 own and 30 franchised stores in Europe and the Middle East.

3.4. DETI children's wear increasing Store Presence in Moscow

September 30, 2010, mall.ru

After having acquired the specialized children's wear and accessorize retailer DETI ("Kids") in July 2010, JSC Spez.Odezhda ("special clothing") owner of the retail network ZDOROVIY MALISH ("Healthy Baby"), drives the further expansion of both chains, with a focus set on Moscow. In July 2010 the first store of DETI in Moscow was launched at the shopping center Kaluga. At the end of August the company opened the largest venture of DETI at MEGA Belaya Dacha (IKEA) on a retail space of 3.000 square meters. On September 25, 2010, DETI expanded to SEC Kluchevoy in the neighbourhood of the sub-urban region of Marino. On October 2, 2010, a stand-alone store of DETI opened on Prishvin Street in Moscow. The acquisition of DETI costed JSC Spez.Odezhda up to RUR 1,8 bn (€ 45 mn / US $ 60 mn), sources say. At the time of this transaction the retail chain of DETI consisted of 24 stores in St. Petersburg and 13 stores in Moscow. In late August, the 25th store of DETI opened in St. Petersburg. The chain of ZDOROVIY MALISH includes 82 stores in Russia. Main competitor of this retail group is DETSKIY MIR ("Children's World") operating 128 multi-brand children's wear and accessorizes stores in 68 cities of Russia on an net floor space of 210.000 square meters (status of May 2010). DETSKIY MIR announced in June of this year to launch further 10 new stores until the end of 2010. Majority share holder of DETSKIY MIR is AFK SISTEMA, one of the largest financial conglomerates and developer of shopping malls.

3.5. Third store of H&M opening in St.Petersburg

September 9, 2010, malls.ru

At the end of September Swedish clothing retailer H&M signed a lease contract for the implementation of the group's third store in the city of St.Petersburg located at the new shopping and entertainment center GALERIA, expected to open by end of November 2010. According to JonesLangLaSalle, exclusive lease broker for Galeria, the new H&M store will be based on more than 1.500 square meters. Besides, H&M operates a flagship on Nevsky Prospect and a further retail unit at MEGA Dybenko (IKEA). In addition, H&M runs five stores in Moscow. Clothing brands having concluded lease agreements with JonesLangLaSalle for GALERIA include among others: Sportmaster, Mexx, Next, Gap, CK Jeans, Marks and Spencer, River Island, Topshop, Karen Millen, MAC, Mothercare and Etam, besides other well known tenants from various consumer good's sectors. GALERIA is the first place in Russia to introduce the German fast fish food chain NORDSEE.

3.6. Foreign vertical Clothing Chains opened 189 new Stores in Russia

October 6, 2010, FCG

According to a research presented on October 6, 2010 to the German Fashion Industry in Duesseldorf by Fashion Consulting Group (FCG), Moscow, foreign mono-brand retailers opened 185 new stores in Russia over the period from 2008 till the end of the third quarter of this year. The research is based on a sample of 19 of the most active foreign clothing retail brands operating in Russia including Mexx, Benetton, Columbia, Naf Naf, Mango, Adidas, Olsen, Motivi, New Yorker, H&M, GAP, River Island and the new comer Japanese Uniqlo. As such brands illustrate the focus of the study is on outerwear. A separate research has been made by FCG on the present status of store development of Lingerie Brands (see chapter 3.8. of this newsletter). As it was explained by Anna Lebsak-Kleimans, CEO of FCG, **Mexx** has taken the lead in its store expansion in Russia. The chain increased from 114 stores at the end of 2007 to a total of 153 by September 2010, representing a growth of 39 stores. Ranking second is **Benetton** having grown from 100 stores to 138 stores. Inditex's brand **Pull&Bear** is in third place with an increase from 10 to 26 stores, followed by the new-comer **NEW LOOK** (from 0 to 13 stores) and **Mango** (from 51 to 63 stores). The total number operated under own or franchised management of the 19 selected foreign mono-brand retailers accounted for 855 stores operating in Russia until to-date.

3.7. Russian Mono-Brand Apparel Networks expanding dramatically

October 6, 2010, FCG

Whereas the key foreign vertical clothing retail chains opened 185 new stores in Russia over the past three years, Russian mono-brand apparel retailers expanded their market coverage in launching 1.048 new own and franchised stores all across the country. This is a result of a research provided by Fashion Consulting Group (FCG),Moscow at a convention of the German Fashion Industry in Düsseldorf, on October 6, 2010. The analysis is based on a sample of 18 of the leading Russian clothing retail chains and includes Sela, Gloria Jeans, Tvoe, Oggi (oodji), Glance, Incity, Savage, Beefree, Baon, Sportmaster, O'stin (Sportmaster), ConceptClub, Woolstreet, Zarina, Kira Plastinina, Five Kharmanov, Vesh! and Henderson, all such retail chains selling outerwear/casual wear for women, men and partly children. The leader of store expansion is **Oggi** (oodji) counting a growth from 125 stores at the end of 2007 to 287 stores at the end of September 2010. Ranking second in growth is **Incity** from 80 to 222 stores, followed by **O'stin** (from 62 to 179), **Glance** (from 182 to 260), **Befree** (from 53 to 123), **Zarina** (from 34 to 103), **Sportmaster** (from 120 to 180) and **Concept Club** (from 82 to 142). The average number of new store openings of such 18 Russian retail chains accounted for 58 stores, or, close to 20 new stores per year. This compares to an average number of new store openings of foreign clothing retail chains of 3 stores in Russia over the past three years. On a global aspect of comparison the leading 18 clothing retails chains incorporating a total of 3.537 stores compete with 855 stores operated by the major foreign apparel chains which brings the overall **total of chained clothing retail** in Russia to a minimum of 4.392 stores in 2010.

3.8. Top Ten Retail Market Players of Lingerie in Russia

October 6, 2010, FCG

As it became transparent from a special survey conducted by Fashion Consulting Group (FCG), Moscow, on the present status of the leading lingerie retail chains in Russia, there are just 10 players operating mono-brand and multi-brand stores, controlling retail sales of intimate apparel in Russia. Chained lingerie retail is based on a minimum of 941 stores with Belorussian **Milavitsa** in the lead, operating 187 stores, followed by Swiss **Triumph International** accounting for 178 partly owned and franchised multiples. Number three is Russian **Bustier** with 173 stores, an upper medium multi-brand lingerie chain under control of Wild Orchid Holding with Sberbank as majority shareholder. Fourth rank is held by Italian **Calzedonia** with 100 shops in Russia under this brand together with further 47 stores under their label of **Intimissimi** and 9 stores under

Tezenis. Number five is Russian **Estel Adoni** counting 93 upper medium multi-brand lingerie stores, followed by Serbia-Montenegrian **Vis-à-vis** (87 stores), the Russian luxury lingerie chain **Wild Orchid** (69 stores), Russian mono-brand retail chain **Defile** (46 stores), French **DIM** (37 stores) and Etam (15 stores). According to the website of OOO Calzedonia, the Russian own subsidiary, the company plans to increase its network for the three brands to 250 shops all across Russia.

3.9. German NEW YORKER launched 40th Store in Russia

October 15, 2010, shopandmall.ru

Golden Babylon Rostokino, the new shopping and entertainment centre which opened a year ago in Moscow has been chosen as venue for the implementation of the 40th store of NEW YORKER, the German young fashion retailer. The store was inaugurated on October 15, 2010 on a floor of 1.000 square meters. The store carries five different labels of NEW YORKER under the names of "fishbone", "fishbone sister", "smog", "amisu" and "censored". NEW YORKER entered the Russian market in 2005. The first store opened in Rostov-on-Don. Since then the company built a network of 39 stores within five years in Russia. Further growth of the chain is planned.

3.10. SPORTMASTER opened further Hypermarket in Nizhny Novogorod

October 18, 2010, shopandmall.ru

SPORTMASTER is among the fastest growing specialized Russian Retailers selling sportswear, active wear, shoes and sporting goods such as hardware of all kinds. Over the past three years the number of stores increased from 120 at the end of 2007 to 180 at the end September 2010. In October the company launched its 181st store under the format of "Sportmaster Hyper" in the city of Nizhny Novgorod located at a development project named "Retail Park" in a building providing 5.000 square meters of space. The object is one of the largest specialized sport shops in Russia. The hypermarket concept of Sportmaster was introduced to the market in 2007. Meanwhile there are 13 such sports hypermarkets operated by the company in Moscow, St.Petersburg, Volgograd, Samara, Voronezh and further Russian large regional cities. Sportmaster calculates retail prices at comparatively lower to average margins to serve the demand of lower to medium earning consumers. Anchor tenants to "Retail Park" in Nizhny Novgorod are hypermarkets for DIY products, household appliances, food markets, and clothing and footwear discount retail formats.

3.11. KIT FINANCE strips Holding FDLab

October 6, 2010, Gazeta Kommersanta, St. Petersburg
Anna Mikheeva, Anastasia Gordeeva/ Oct.20, 2010, russiaretail

In summer this year, the Russian Bank KIT-Finance entered lawsuits filed at the arbitration court of St.Petersburg to collect debts from ZAO Valkor, a retail operating company belonging to the holding structure of FDLab, a well known Russian import distributor and master franchiser of European clothing brands. The creditor had provided Valkor two credit lines worth € 8 million (US $ 11 mn) and an additional loan of RUR 120 million (€ 3 mn./US $ 4 mn) in mid –2008. The President of FDLab, Alexander Lopatin, took a personal guarantee for the loans. When the deadline for the credit expired in November 2009, Capital Partners, a hedge fonds became a stockholder of FDLab enabling the company to cover the debt. KIT-Finance then agreed to open new operational credit lines at US $ 3,5 mn and US $ 5,6 mn in November 2009 to finance clothing under circulation and the acquisition of 100 % of the shares of Valkor by FDLab Holding. According to Oleg Shelyag, first deputy director general of the bank, KIT-Finance also filed a lawsuit on vertification of the personal guarantee for loans by Alexander Lopatin at the Vidnovsky City Court of Moscow region, where Lopatin lives. As Shelyag further stated, Lopatin periodically tried to negotiate with KIT-Finance on restructuring of debts at terms, which the bank is unable to accept. There remains unsecurity on the creditor's side, because more than two European brands originally represented in Russia by FDLab did not prolong their distribution agreements with the company in 2009. In August 2010, FDLab pulled out of the cooperation agreement with Tom Tailor and Warehouse. FDLab also renounced the multiplication of its own retail concept "Fairy Tale", a large children's toy store , to St. Petersburg. Furthermore, the proclaimed cooperation between British Habitat Home Stores and Mamas & Papas retail chain of clothing and accessories for children and parents did not materialize. FDLab also reduced the retail network Pur Pur, a low price jewellery chain which the company acquired after bankruptcy of the chain in Spring 2009. At the moment FDLab continues its wholesale and franchise store promotion for the remaining clothing brands Moa, CBY, Monnalisa, Sanetta, Döll and Marc O'Polo. According to own data, FDLab accounted for a customership in Russia of around 900 doors, in 2009. As experts estimate revenue of FDLab should have attained US $ 150 million, in 2008.

As SPARC reported, Alexander Lopatin, in his capacity as Director General of Valkor and as majority shareholder of FDLab, pledged to the bank in mid-September to eliminate ZAO Valkor, on the exact operational function of which Lopatin declined to comment with the exception in stating that Valkor is "related to multiple retail networks".

3.12. ZARA to open 40th Store at Grand Canyon by End of December

October 25, 2010, liveretail.ru

Getting prepared for Russian New Year's peak sales season, Inditex Group of Spain will open its 40th store in Russia on a floor space of 2.000 square meters on the second floor of the shopping and entertainment center Grand Canyon in St. Petersburg. According to the real estate broker Colliers International, ZARA will occupy part of vacant space which became available from the pull out of M.Video, a former anchor tenant at Grand Canyon. As Colliers had guaranteed for the lease of M.Video versus the owners of the mall, experts believe that Inditex made a good deal in renting the vacant space.

4) Shopping Mall Development

4.1. Stocktaking of Lifestyle Retail Expansion in Moscow and St. Petersburg

September15, 2010,malls.ru/October19,2010, shopandmall.ru

The Russian subsidiaries of JonesLangLaSalle and Penny Lane Real Estate published reports on the commercial real estate market of Russia for the third quarter of 2010. The results of stocktaking are almost identical: As both retail estate brokers confirmed vacancies at existing shopping centers in Moscow got reduced over the first nine months of this year to 7 % of retail space availability. In St. Petersburg open space is slightly higher at 8%. The reason is that both, Russian retail chains, groceries in particular, but also chained clothing and other consumer goods retailers keep expanding their networks: As far as the foreigners are concerned there are requests on the table of the real estate brokers for search of space from German Media Markt, OBI, Adidas; French Auchan; Italian Prada; Swiss Swatch Group and others like British Next, Mothercare and The Body Shop.

Although Moscow and St. Petersburg envisage opening of several hundred thousands of new retail space at shopping and entertainment centers about to open during the fourth quarter of this year, the real estate brokers do not expect that this will have a negative effect on vacancies at older shopping centers. According to Penny Lane, rental fees in Moscow remained unchanged over the summer period of this year. For anchor tenants with large space requirements lease rates vary from US $ 120 to 200 per square meter and year. Medium and smaller retailers pay in-between US $ 500 and 1000. Retail venues at best high street locations of Moscow face lease charges from US $ 2.000 to a maximum of US $ 8.000 per square meter and year. If retail results over the fourth quarter will show significant increase rental fees may go up for new contracts at in-between 10 to 30 %, for prime space. JonesLangLaSalle points at the progressing expansion of shopping centers in regional cities like "Golden Park" or "Aura" in Novosibirsk, "Southern Mall" in Kazan, "Triumph" in Saratov. "Retail Park" in Nizhny Novgorod and Saratov and the delayed opening of IKEA's largest shopping and entertainment center in Russia, located in the city of Mytischi, in Moscow region. In 2011 developers will start construction in Moscow of two Factory Outlet Malls, a Fashion House Showroom Complex and an Outlet Village near IKEA's MEGA Belaya Dacha. In St. Petersburg the existing "City Mall" is planned to be extended by a new section. As JonesLangLaSalle further comments the coming year will see an increasing number of older shopping centers being refurbished, for example "Veymart" and "Auchan Capitol City" in Moscow.

4.2. 90 Percent of Lease Area booked at GALERIA MALL in St. Petersburg

September 20, 2010, malls.ru

The new shopping and entertainment centre "GALERIA MALL", located at the crossing of Ligovsky and Nevsky Prospects opening of which is scheduled for the end of November 2010, provides a gross lease area of 192.000 square meters. According to JonesLangLaSalle, the exclusive consulatant and lease broker, contracts with tenants reached 90 % of the rent area in September 2010. Among the anchor tenants one can find large space holders like a multiple of the Russian food hypermarket chain "Okay", the electronic goods chain "M.Video", "Sportmaster", the sports goods retail chain, several multiplex cinemas, and a bowling center. In September "Moneks Trading", an investor in franchised clothing brands, signed lease contracts to open stores for MAC, the German casual brand on 64 square meters, NEXT (679 m²), MOTHERCARE (340 m²), THE BODY SHOP (55 m²), PAYLESS (225 m²) and JUSTICE (171 m²).

4.3. METRO CASH & CARRY developing Retail in Sochi besides other Players

September 20, 2010, malls.ru; September 27, 2010, russiaretail.com

German METRO GROUP has acquired land on an area of 5,5 hectares located close to the city of Sochi in the Khostinsky district to construct a wholesale hypermarket on a retail space area of 10.000 square meters. The market is supposed to offer more than 25.000 items of non-food and food products. According to Interfax news agency, the investment for the object is supposed to account for € 34,5 million. Opening of the store is scheduled by end of 2012. As of end of the second quarter of this year METRO operated 48 cash &carry markets in 33 regions of Russia, including 11 stores located in Moscow. METRO is an employer of more than 13.000 people in Russia.

Other key-players investing in Sochi, hosting the Olympic Winter Games in early 2014, are BOSCO DI CILIEGI, MERCURY HOLDING, the two largest luxury goods retailers in Russia, such as X5 Retail, the biggest Russian grocery chain and M.VIDEO, the Russian electronic consumer goods network. BOSCO plans a shopping pavilion at the Sochi Marine Center, which is in course of renovation. The centre will allocate mono-brand luxury shops of ARTICOLI, Bosco's own fashion accessory chain, ETRO, EMPORIO ARMANI, ZEGNA, MAX MARA, LA PERLA, OMEGA and SWATCH. According to "Retail Update Russia", a retail news service, MERCURY HOLDING acquired an eight hectares land site located in Krasnaya Polyana near Sochi, where the company plans to construct a luxury village alongside an artificial highstreet allocating mono-brand stores and boutiques out of MERCURY's portfolio of brands. These include GUCCI, DOLCE & GABBANA, GRAFF JEWELLERY as well as the luxury car brands FERRARI, MASERATI and BENTLEY.

4.4. Frozen Real Estate Projects likely to melt next Year

September 24, 2010, malls.ru

In a recent report on the status of development of commercial real estate in Europe over the period of the first semester 2010, CUSHMAN & WAKEFIELD, the Anglo-American real estate consultancy, confirmed that Russia has held the lead in Europe in terms of new retail space delivered as well as in the total volume of retail space under construction. Over the first six months of this year, a total of 430.000 square meters of retail space were opened in Russia with a Moscow share of 41 %. According to Charles Slater, head of the Russian branch office of CUSHMAN & WAKEFIELD, the recent restoration of consumer confidence in the Russian regional cities is regarded as a main reason for real estate developers to return to their frozen projects, re-activate construction and, as most, importantly, to announce planning of new shopping centers.

4.5. Forecast on Commercial Real Estate in key Provincial Cities

October 6, 2010, Knight Frank Research / FCG

As it was presented by Anna Lebsak-Kleimans, CEO of Fashion Consulting Group at a special meeting of the German Fashion Industry on October 6, 2010 in Düsseldorf, planned expansion of retail space through construction of frozen and new shopping centers in large and medium size provincial cities of Russia is outstanding. According to a recent benchmark study, published by Knight Frank Research , there are a projected 6,2 million square meters of gross lease area planned to be released in eleven selected provincial cities until the end of 2012. Knight Frank's analysis departs from the status of gross retail space at shopping centers under operation until September 2008 as well as from the finished development of shopping centers over the period of October 2008 till December 2009. On top of that a projection is made on the start of construction and the announcement of new projects from 2010 till the end of 2012.

The city of **Omsk** represents itself as the most dynamic place of investments in shopping centers. From a base of 166.00 square meters under operation until the end of 2009, Omsk will see a growth of retail space of 966.000 square meters from 2010 till 2012. The second most dynamic city is Volgograd with an expansion target of 868.000 square meters, followed by Ufa (+795.000 m²), Nizhny Novgorod (+737.000 m²), Chelyabinsk (+635.000 m²), Novosibirsk (+595.000 m²), Lipetsk (+426.000 m²), Ekaterinburg (+415.000 m²), Sochi (+339.000 m²), Rostov-on-Don (+265.000 m²), and Perm (+201.000 m²). At the end of 2009, Ekaterinburg held the third rank after Moscow and St. Petersburg, providing a total of 430.000 square meters of gross lease area at operating shopping centres.

4.6. Crisis Influence on Change of Lease Terms

October 6, 2010, FCG

The economic crisis in Russia had a strong influence on the terms of leasing retail space in shopping centres. According to Fashion Consulting Group the average rent accounted for 30 % of the annual retailers turnover until the end of 2007, when many long term lease agreements expired. At the beginning of 2008 landlords claimed for doubling lease rates for new contracts which lead to a process of pull-outs and closures of stores reaching its peak during the fourth quarter of 2008 and the first quarter of 2009. Landlords responded by offering tenants six-months lease agreements at lowered rates of 25 % average against previous turnover based terms. They also started to apply a different system for charging rental fees based on a 25 % lower flat rate combined with an additional charge of 12-14 % of the turnover for tenants of fashion stores. The new condition became popular in Moscow and St. Petersburg. Developers in the regions were less flexible when negotiating their lease terms and therefore lost an average of up to 30 % of their tenants. This created higher vacancies at shopping centers in regional cities than in Moscow and St. Petersburg. At the moment real estate consultants observe a tendency of slightly rising new lease flatrate terms for new contracts in Moscow, particularly, but not yet in the regions. It is forecasted that this process will accelerate, next year.

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