

## Press Release

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# Russia's rampant retail growth: Moscow's economic might now challenged by a host of up-and- coming cities

**GfK GeoMarketing analyzed the retail situation of 39 Russian cities. Unsurprisingly, Moscow is the unrivalled leader. Much more newsworthy is the fact that it is closely followed by comparatively little-known cities such as Tyumen and Ufa.**

Using the latest data and on-site studies, GfK GeoMarketing analyzed the economic conditions of Russia's 39 most important cities. Some of the resulting insights into Russia's retail climate are startling.

The Russian market still has some catching up to do with its Western European counterparts. Despite or partly even due to this fact, it offers enormous opportunities to expanding and enterprising companies and investors. These opportunities have this far usually been associated with the world-class metropolis of Moscow. There, such premier venues as the Triumph-Palace (Europe's tallest residential building), Crystal Island (upon completion, one of the largest buildings in the world in terms of floor space), the vast shopping centers of the Inter IKEA Group and numerous luxury malls are indicative of a Russia that views itself as an international trendsetter in culture, architecture and fashion. But now Russia's second- and third-tier cities have also attracted the attention of internationally active chains and investors.

Problematic for companies wishing to take advantage of this situation is the difficulty in accessing reliable data sources. Some attempts to expand into this dynamic market falter due to choosing a location with low customer frequency and/or potential. The Russian retail market thus poses certain risks, even amidst the enormous opportunities that undeniably exist. Without expert, on-the-ground knowledge of the country's retail locations, language and legal requirements, it's extremely difficult or even impossible to

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gauge the accuracy and reliability of existing sources of official and/or commercial data on market potential, infrastructure conditions and projects currently being implemented.

GfK GeoMarketing offers an up-to-date collection of market data on Russia's major cities. This information was compiled via on-site studies and own calculations from statistical data. The gathered information and validated data give companies and investors detailed information on the retail environment in Russia's 39 most promising cities.

**Profile of Russia's retail climate**

With 10 million and 4.5 million inhabitants respectively, Moscow and St. Petersburg are in a league of their own with respect to total consumer potential. Russia's enormous retail potential becomes apparent when one considers that the country boasts an additional nine cities with more than one million inhabitants. The potential for (international) retailers in these locations is especially high.

**Russia's 10 most populous cities**

Rank	City	Federal district	City population (Status:1.1.2007)
1	Moscow	Central	10,442,700
2	St. Petersburg	Northwestern	4,571,200
3	Novosibirsk	Siberia	1,391,900
4	Yekaterinburg	Urals	1,315,100
5	Nizhny Novgorod	Volga	1,278,300
6	Samara	Volga	1,139,000
7	Omsk	Siberia	1,134,700
8	Kazan	Volga	1,116,000
9	Chelyabinsk	Urals	1,091,500
10	Rostov-on-Don	Southern	1,051,600

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Of particular interest are the Russian cities whose inhabitants possess a high per person purchasing power, which serves as a magnet for international retailers.

Moscow tops the GfK purchasing power per inhabitant rankings, followed by the much less familiar west Siberian city of Tyumen. Other cities with significantly above-average purchasing power indices are those heavily influenced by the oil industry or other major commercial sectors, such as Ufa, Krasnodar, St. Petersburg, Perm, Yekaterinburg and Tolyatti.

**Top 10 cities according to the GfK per person purchasing power index**

Rank	City	Population (status 1.1.2007)	Purchasing power index per inhabitant (100 = national average)
1	Moscow	10,442,700	271.7
2	Tyumen	549,900	171.1
3	Ufa	1,022,600	147.6
4	Krasnodar	709,000	144.4
5	St. Petersburg	4,571,200	135.3
6	Perm	990,200	135.1
7	Yekaterinburg	1,315,100	134.8
8	Tolyatti	705,300	133.2
9	Samara	1,139,000	132.8
10	Habarovsk	500,200	128.5

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The high purchasing power index scores of these cities are indicative of the stark disparities in disposable income in Russia. The national average purchasing power is much lower than in these few urban locations. Due to the uneven economic development of Russia's industries and regions, the wealthier segments of the population have clustered together in relatively few areas.

In addition to the number of inhabitants and per capita purchasing power levels, the demand potential of the entire market region surrounding a city is another decisive factor for companies contemplating an expansion or investment opportunity. For example, it's insightful to rank these cities according to the total purchasing power of their surrounding regions.

**Top 10 greater metropolitan areas according to total purchasing power**

Rank	City	Federal district	Purchasing power of metropolitan area (in bil. €)
1	Moscow	Central	58,782.9
2	St. Petersburg	Northwestern	12,033.0
3	Yekaterinburg	Urals	4,006.0
4	Samara	Volga	3,598.2
5	Nizhny Novgorod	Volga	3,120.1
6	Ufa	Volga	2,986.0
7	Novosibirsk	Siberia	2,882.0
8	Rostov-on-Don	Southern	2,823.2
9	Perm	Volga	2,783.8
10	Kazan	Volga	2,698.6

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While Moscow and St. Petersburg continue to dominate the top third of the rankings, Rostov-on-Don jumps to the eighth position. There is also some movement in cities ranked outside of the top ten. For example, cities such as Novokuznetsk, Naberezhnye Chelny and Kaliningrad possess significantly higher demand levels than one would assume based on population size alone.

### **Shopping center-to-inhabitants ratio an important indicator**

The shopping center floor space-to-inhabitant ratio is a good benchmark for gauging the likely success of a planned project for a given area. Cities such as St. Petersburg, Samara, Ufa and Yekaterinburg score well in this regard. By contrast, Moscow ranks only eighth among Russia's 39 largest cities. However, these calculations do not take into account projects currently in the pipeline. Moscow's currently available shopping center space of 165 m<sup>2</sup> per 1,000 inhabitants<sup>1</sup> is expected to increase substantially in the coming years. Less impressive are the shopping center offerings of Russia's so-called second- and third-tier cities such as Tomsk, Irkutsk, Astrakhan and Lipetsk. Consequently, these are prime locations for project developers seeking investment opportunities.

### **The relationship between growth rates and overall market significance**

The Russian retail market is significantly more dynamic than its Western European counterpart: GfK GeoMarketing predicts a growth rate in excess of 30 percent for the 2007-2009 period.

Even so, this growth must be placed into context. Even a modest increase in growth in Western European markets is, in absolute terms, more significant than comparatively larger growth in developing economies like Russia. Various factors contribute to this phenomenon. For example, while the average GfK retail purchasing power in Russia is around €1,800 per person per year, a comparatively greater percentage of these funds go toward living expenses than is the case among western Europeans. Consequently, Russia's approximately 143 million inhabitants are estimated to have generated a cumulative retail turnover volume amounting to a "mere" 260 billion euros in 2007. By comparison, Germany – Europe's largest consumer market in terms of turnover – is anticipated to post a retail turnover volume of 400 billion euros for the same period and with just over half the number of consumers (approx. 80 million).

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<sup>1</sup> Only shopping centers with more than 20,000 m<sup>2</sup> GLA (gross leasable area) were taken into account.

### **Investment opportunities abound in Russia, but good planning is essential**

Despite potential risks and often more modest cumulative retail turnover, Russia – along with other growing markets, such as the Ukraine – will attract growing interest among enterprising companies and investors.

Expanding businesses are rapidly entering this market, and there are countless projects already well underway. Due to the Russian retail market's dynamism and many variables, thorough, on-site research and assessments should precede any venture.

"In the current euphoria surrounding the Russian market, it's vital that interested companies and investors come up with robust strategies and do the necessary front-end work with regard to selecting a location that is likely to lead to sustained success," advises Olaf Peterson, director of Real Estate Consulting at GfK GeoMarketing. "Those who neglect the quality-control process and proceed too quickly, with an eye only for immediate gains, will soon find themselves overtaken by the competition."

"From our perspective as location and real estate appraisers, detailed and rigorous on-site analyses that make use of the latest data are essential prerequisites for an entry into such a complex market," Peterson continues. "Only this approach provides investors and expanding companies with a rock-solid foundation for sustainable growth and profits."

### **About the study**

GfK GeoMarketing regularly analyzes the retail environment of more than 430 locations across Europe. These analyses measure retail-relevant purchasing power as well as turnover potential for six major product lines. The GfK POS (point of sale) Retail Turnover and GfK Retail Centrality datasets provide additional points of reference for gauging the qualities of a given retail location.





Much of the data is gathered as part of the Europe-wide location appraisals and reports that GfK GeoMarketing conducts for its clients.

GfK GeoMarketing's data give companies and investors insight into the market potential of a given location or region. GfK GeoMarketing also supports multi-branch companies in their expansion endeavors by providing Europe-wide market data and consultancy services in the areas of location planning and real estate appraisal.

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### **About GfK GeoMarketing**

GfK GeoMarketing is one of Europe's largest providers of geomarketing solutions for customers from all branches of trade. Its services include:

-  Consultancy and reports
-  Market data
-  Digital maps
-  RegioGraph and DISTRICT geomarketing software solutions

The company is a subsidiary of the international GfK network. Ranked among the world's top 5 market research organizations, the GfK Group consists of 115 subsidiaries and approximately 9,300 employees, with operations in 100 countries.

**Additional information** can be found online at

[www.gfk-geomarketing.com/consulting](http://www.gfk-geomarketing.com/consulting).