



KPMG Armenia cjsc

Survey of Retail Real Estate in Yerevan

ADVISORY

About the Survey

This high level overview of key findings of KPMG Survey results is prepared for those companies who agreed to participate in the survey conducted by KPMG Armenia cjsc during the January – February 2008.

Purpose of the survey was to obtain primary information about the retail real estate market of Yerevan, including the factors driving the changes in rental prices, factors affecting the choice of retailers in their search for retail real estate, estimated market size, forecast of the vector of rental prices.

USD/AMD exchange rate is the most important factor affecting the level of rental prices of retail real estate in Yerevan.



The participants were recognized local real estate agencies and quality retailers in “high streets” which represent either well known international brands or have obvious distinctions from other similar retailers in terms of the quality of retailing service they offer.

Six real estate agencies and 21 high street quality retailers participated in the survey. Interviewed 21 high street quality retailers occupy about 7,000 square meter of retail space in total



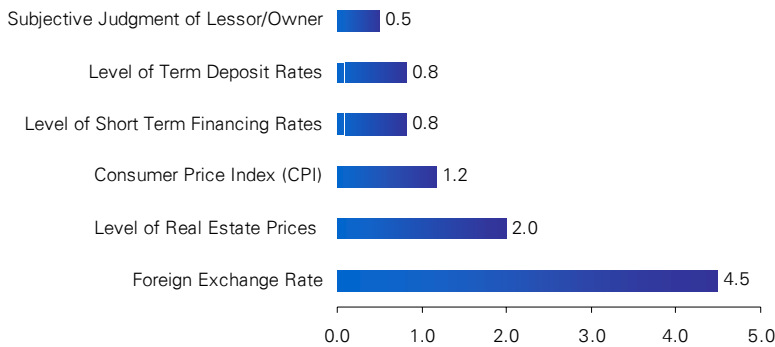
Key findings

Owned or leased space?

About 67.0% of interviewed high street retailers informed that they rent the retail space for their business. 33.0% of respondents mentioned that they operate from own retail space. Some of these interviewed retailers indicated that they are in the process of expanding their retail outlets into surrounding areas of the downtown.

Average Rental Prices: The average rental prices for a quality retail real estate in “Zone 1”¹ of Yerevan for the December 2007 - January 2008 varied between AMD 14,000 – AMD 24,000 per square meter per month including VAT.

Drivers Affecting the Rental Prices:



Source: KPMG analysis of the survey results

¹ Zoning of Yerevan city is done according to the Resolution № 470-N of the Government of RA dated 17 April 2003. It provides that the “Zone 1” covers the downtown – “small” city center of Yerevan.

The average compounded annual growth rate in real estate prices in Yerevan for the period of 2000 – 2007 was 23%.

Drivers Affecting the Rental Prices:

Respondents graded² the USD/AMD exchange rate as the most important macroeconomic factor that influences the rental price.

² Grading range was from 0 to 5, where 5 denotes the strongest influence and 0 no influence.

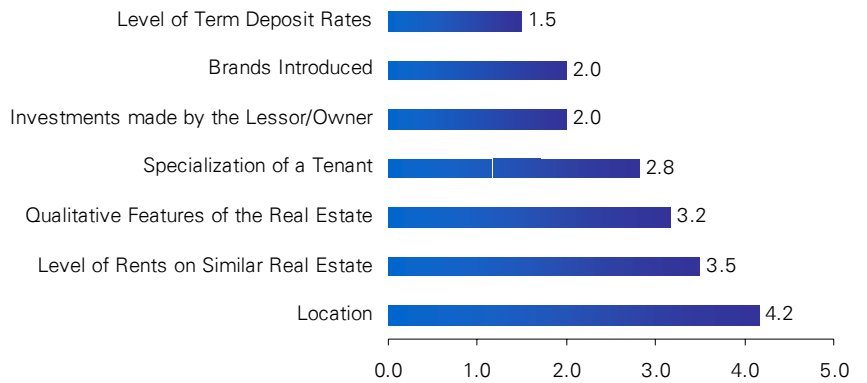


Key findings (cont'd)

Factors Affecting the Rental Prices:

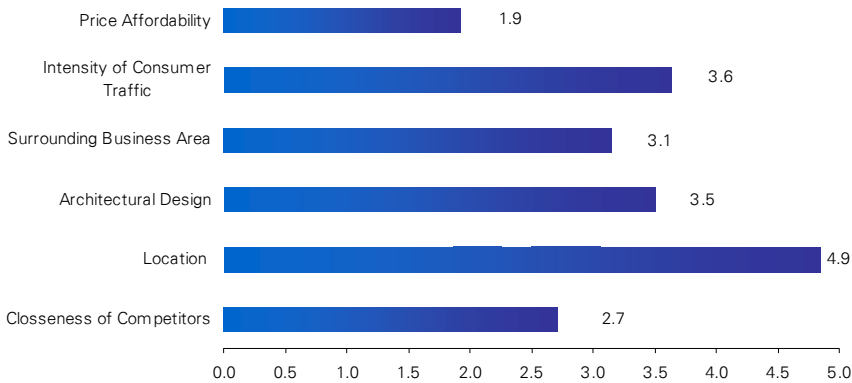
Respondents were requested to grade the presented factors considering their level of influence on the rental prices. Survey indicated that lessor/owners consider the location of retail real estate as the most important factor which affects the level of rent.

Factors affecting the rental prices



Source: KPMG analysis of the survey results

Factors considered by quality retailers for selecting a retail space



Source: KPMG analysis of the survey results

Factors affecting the choice of space:

Interviewed retailers consider the **location** as the most important factor for leasing the areas in high streets and the city center. Other factors, such as intensity of consumer traffic, surrounding business area, architectural design of the retail real estate are also among factors affecting the decision making for quality retailers.

Key findings (cont'd)

Usual form of rents: Among the survey participants the most usual form of rent is the defined fixed monthly payment. No other form of rent, such as percentage from turnover or hybrid (fixed rent plus percentage from turnover) was indicated as common in Yerevan.

What does it include? Rents for high street quality retail real estate/space usually include property and land (if applicable) taxes only, other charges are paid by the retail tenants.

Infrastructure Required by Quality Tenants: The majority of interviewed high street quality retailers require the following infrastructure: at least heating, ventilation and air conditioning, warehouse facility. The same main requirements were mentioned by the retail real estate professionals.

Vacancy Rates: Average vacancy rate both for high street quality retail real estate and quality shopping centers have been close to zero during the recent years.

Maturity of Retail Real Estate Market of Yerevan: With regards to the maturity³ of retail real estate market of Yerevan, four of six interviewed market professionals mentioned that the market is in expansion stage while the other two respondents believe that the market is in saturation and decline stage respectively.

Rent Forecast: According to five interviewed real estate professionals, they expect that the real estate prices and consequently rental prices will increase during the upcoming year. One mentioned that they will follow the macroeconomic developments.

Expansion Plans: About 90% of respondents mentioned that during upcoming years they may consider expanding to a new retail space. The majority of quality retailers mentioned that they have negotiated introduction of new brands as a part of their expansion plans.



³ Maturity of a market denotes the state or a stage of development of market during its lifecycle (recovery, expansion, saturation and decline).

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