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DIY Retail Chains 2011

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Moscow, 2011

ABSTRACT

The market survey "DIY Retail Chains 2011" covers the chain retail market for home, gardening, building, repair and renovation products (DIY products). The survey analyzes specific characteristics of DIY retail development in Russia, the market's performance in 2010, and provides an outline of the basic trends and forecasts for the development of DIY retail in the post-crisis environment.

The survey also describes the structure of Russia's DIY retail market and basic formats of retail chains selling building materials and home products. The survey covers both general retail chains offering a wide range of DIY products and specialized chains selling one or several product categories. In the survey, market operators are analyzed in terms of dynamics of retail chain development, sales, selling space, and presence in regions of the Russian Federation.

A separate section of the survey describes current situation on regional markets by providing an analysis of the key drivers for DIY retail development in regions, current information about retail chains present in regions, their development plans and expansion by new market players.

The profiles of retail chains specializing in the sale of building materials and home products include a brief description of the company, basic characteristics of the retail chain, key lines of the company's development, names of senior managers and contact information. For retail chains, the survey gives the number of stores, formats, number of SKUs, turnover, and investments by companies.

The survey was conducted using the following approaches and methods:

- A questionnaire survey among DIY retail chains (carried out in March 2011)
- A desk study

The desk study was based on the following sources:

- Data from printed and electronic media
- Materials of conferences

The survey was carried out during February-April 2011.

The Report consists of 63 pages.

The Report contains 32 tables and 26 charts and diagrams.

Report language: English.

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DEVELOPMENT OF RETAIL CHAINS SELLING BUILDING MATERIALS AND HOME PRODUCTS IN RUSSIA

Key trends and developments on the Russian DIY market

Retail trade in home, repair, renovation and building products or **DIY retail** (DIY – do it yourself) includes sale of general building materials, decorative and finishing materials, home interior, gardening and dacha products, various equipment and other goods.

DIY retail customers are represented by both private individuals and by small building firms and repair teams. The market segment of building materials used in green construction (e.g. concrete products, roofing materials) is part of the wholesale trade sector and its customers generally consist of construction companies. The DIY products market covers other types of building materials, i.e. finishing materials.

Experts note that Russia's building material retail sector has certain specific features: in Russia, DIY products include a wider range of "rough materials" compared to the West. This is especially noticeable in the assortments of building material stores in medium-sized and small towns of Russia. This situation can be explained by the fact that most new apartments are sold in shell condition and all finishing work is undertaken by the buyer.

DIY retail and related markets: 2010 results

In 2010, the situation on the Russian DIY retail market significantly improved as the key development indicators left negative territory. This is attributable to improved situation in related markets which determine the vector of DIY retail development in the mid-term. The related markets as categorized by RBC.research analysts are as follows:

- The housing construction market;
- The mortgage and consumer lending market;
- The production of building and finishing materials in the Russian Federation.

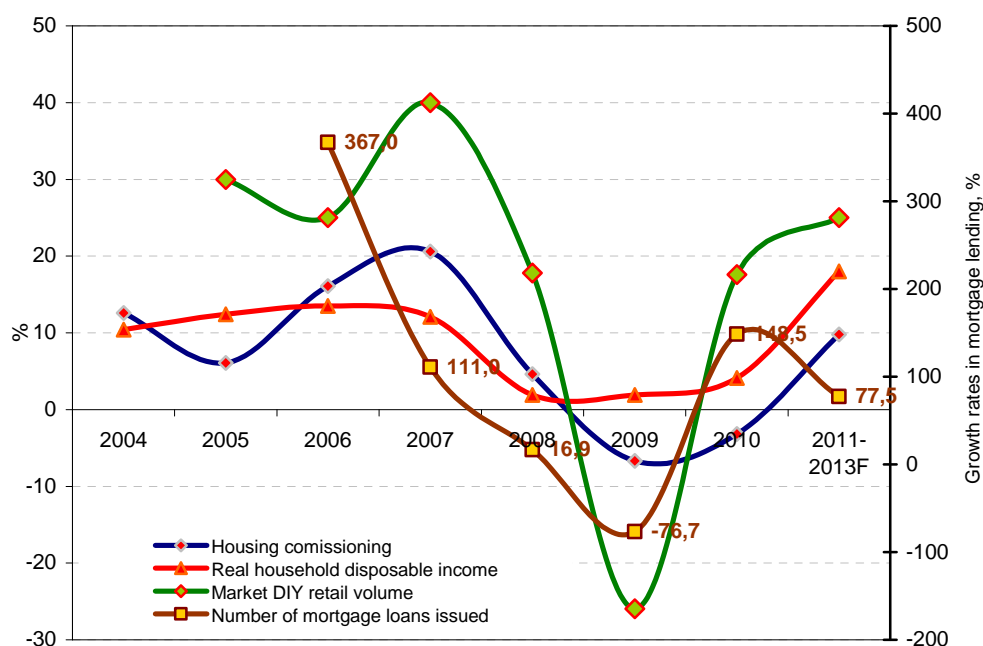
Most related markets showed positive dynamics in 2010: the decline in housing construction slowed down, and the mortgage lending volumes increased more than two-fold. The production of building materials demonstrated differently directed trends, but the output of most of the building materials recorded an increase for the year.

Besides, growth rates in retail sales of building material, home and garden products have been significantly impacted by factors such as the population's income level and the ruble's exchange rate against key currencies.

Housing construction and mortgage lending

The decline in housing construction slowed down in 2010: according to Rosstat, 58.1 million m² of housing were commissioned in 2010 against 59.9 million m² in 2009. This is significantly higher than the figures forecast by the RF Ministry of Economic Development (RF MED) and the Agency for Housing Mortgage Lending (AHML), which had expected 53-54 million m² of housing to be commissioned in 2010. The percentage of residential houses built by private individuals with their own means and loans went down to 43.6% of total housing commissioned (vs. 47.8% in 2009).

Growth rates in housing commissioning, mortgage lending and real household disposable income, 2004-2010, forecast for 2011-2013, %



* - the growth rates of real household disposable income are calculated in relation to 2008.

Source: Federal State Statistics Service, RF Central Bank, forecasts by AHML RF MED, estimates by RBC.research

The main factor which continues to thwart the advancement of the real estate market is the situation with mortgage lending. Despite the positive changes in 2010, obtaining a mortgage loan is still problematic for the majority of potential borrowers. This is due to the fact that the growth in disposable incomes of Russians lags behind the pace of rises in mandatory payments and retail prices of food products.

The mortgage lending market saw gradual recovery in 2010: mortgage loans issued in rubles totalled RUB 378,933 million, representing a 148.5% growth against 2009. According to forecasts by Delta Credit Bank, in 2011 the market volume is supposed to reach RUB 500 billion, and in 2012 increase to RUB 682.5 billion.¹ According to RBC.research estimates, in 2011-2013 the rates of growth in mortgage loans may go up to 77.5%.

Number of mortgage loans issued, 2006-2010, thousands (for the period)

	2006	2007	2008	2009	2010
Number	204,1	214,2	349,5	130,1	301

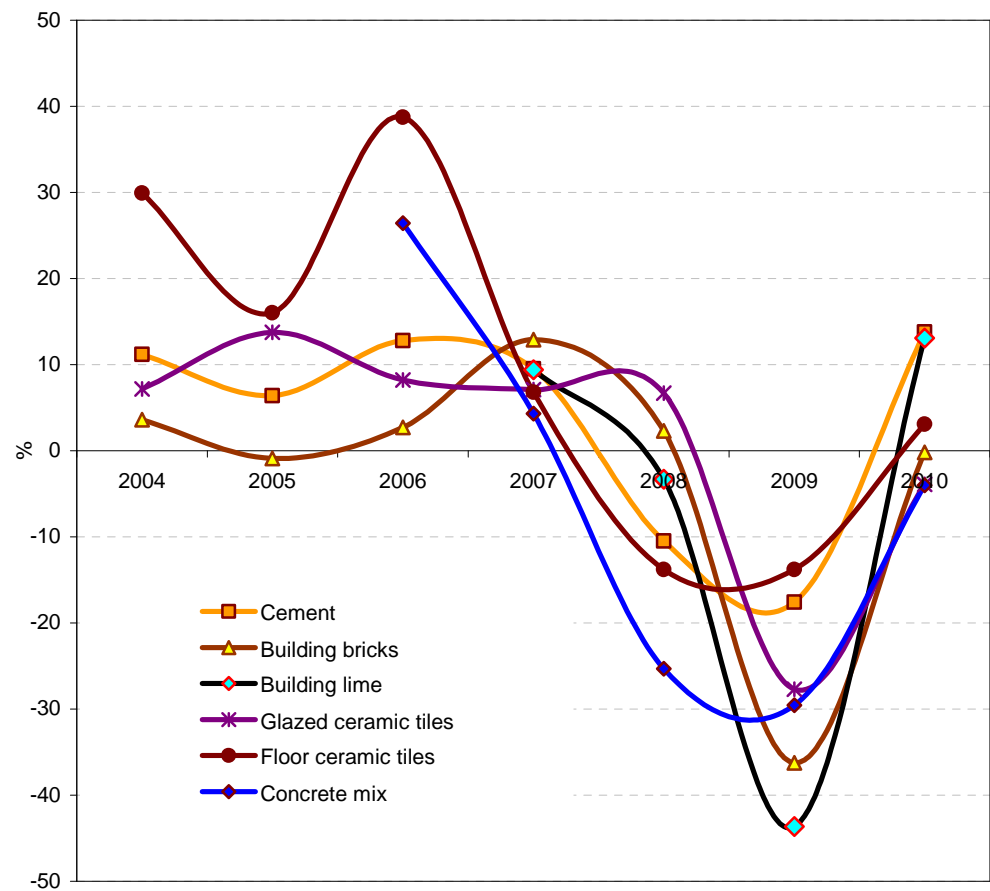
Source: Federal Reserve System, RF Central Bank

Production of building materials

The domestic production of building materials started to rise slowly in 2010; however, the differently directed trends characteristic of 2009 continued into 2010. This is evidenced by RF Rosstat data on different categories of building materials used in construction. The leaders in terms of production growth rates in 2010 were dry pack mortar and porous concrete, which gained 30% and 25%, respectively.

¹ RBC-TV, 20.12.2010

Dynamics in the production of certain types of building materials, 2004-2010, %



Source: RF Rosstat; the data on building lime production rates are given for January-September

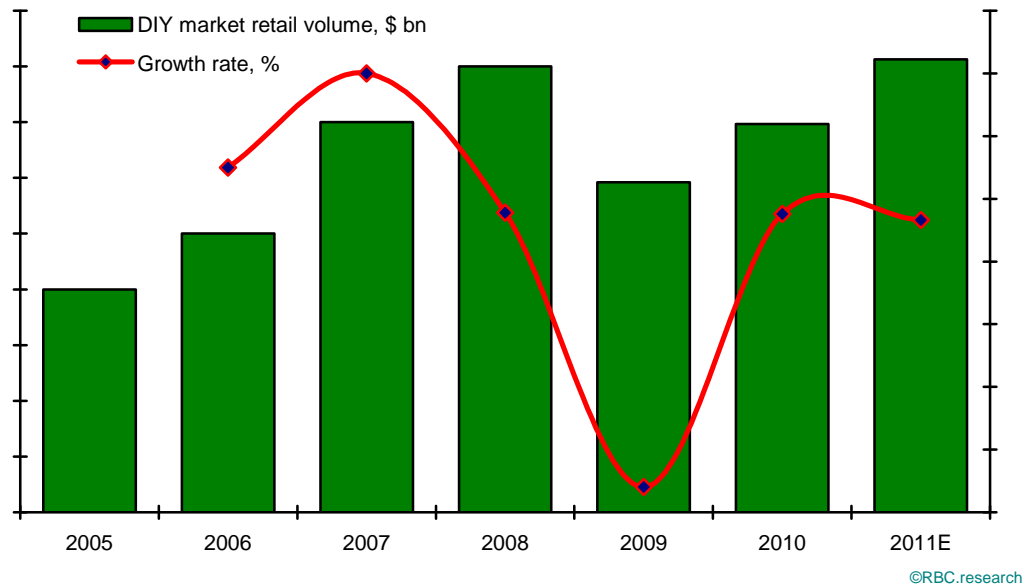
According to Rosstat's preliminary data, cement production increased by 13.8% in physical terms in 2010 (from 44.3 million tons to 50.4 million tons). However, SMPPro estimates the market to have dropped by 1.8% in monetary terms, whereas import volumes remained high despite a considerable decrease in the domestic purchase price.

Development of the DIY retail sector in 2010

The 2010 retail turnover in building & finishing material, home and garden products, including sales on construction marketplaces, is estimated by RBC.research at \$... billion (over RUB ... billion without VAT), approximately 18% up from 2009.

This growth was driven by many factors: the rally in the property market, resumption of mortgage lending and reduction of interest rates on mortgage loans, growth in real property sales, and changes in marketing and product range policies of DIY retail chains. In 2010, real disposable income of the Russian people registered a growth (+4.1%) versus 2009, which also positively impacted sales of building materials and home products.

DIY market retail volume, \$ billion, 2006-2010, forecast for 2011

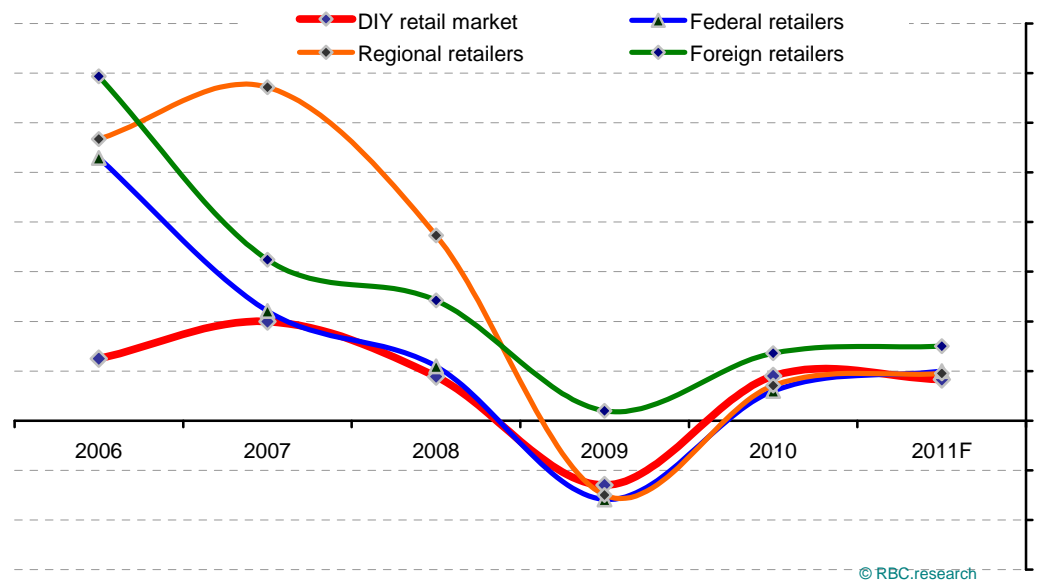


Source: companies' data and forecasts, Federal State Statistics Service, RBC.research estimates

Key trends and forecasts for development of the DIY retail sector in the RF

The second half of 2010 - early 2011 saw major changes in market trends in the DIY retail sector: the demand for building materials and home products started to recover gradually, allowing some retail chains to increase their revenue and average bill. Though the recession peak is now over, the situation on the DIY retail market is ambiguous and trends are differently directed. The pre-recession level of sales in the DIY retail market has not been achieved and, according to forecasts by RBC.research analysts, the demand on the market will not fully recover until late 2011.

Growth rates of the turnover of DIY retail market by type of chain, %, 2006-2010 and forecast for 2011



Source: RBC.research

REGIONAL ANALYSIS OF RUSSIA'S CONSTRUCTION RETAIL SECTOR

Macroeconomic indicators

Largest cities

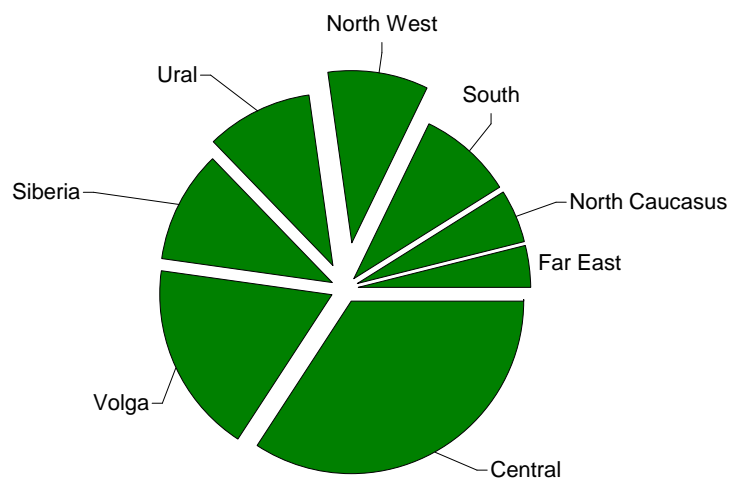
Russia's largest cities by population size and retail turnover, 2010

City	Population as of 01.01.2010, people	Monthly per capita household income in 2010, RUB	Per capita retail turnover in 2010, RUB
Moscow			
Petersburg			
Novosibirsk			
Yekaterinburg			
Nizhny Novgorod			
Kazan			
Samara			
OMCK			
Chelyabinsk			
Rostov-na-Donu			
Ufa			
Perm			
Volgograd			
Krasnoyarsk			
Voronezh			

Source: RF Federal State Statistics Service, including territorial subdivisions, * - 9 months of 2010.

Retail trade

Structure of retail turnover by federal district, 2010

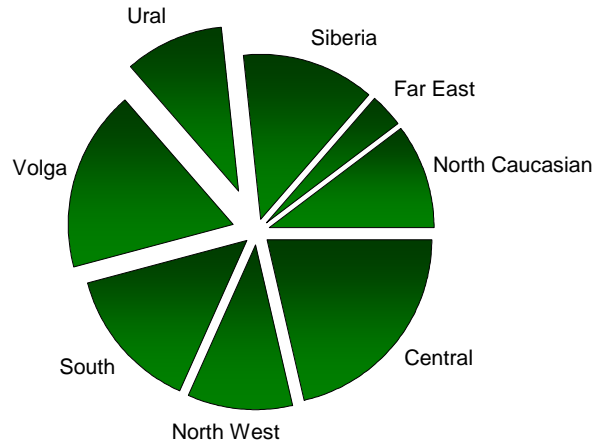


Source: RF MIT

DIY retail in the Russian Federation regions

According to Rosstat's official statistics, the Central Federal District had the greatest share in total retail sales of building materials in 2010.

Figure 1. Structure of retail sales of building materials in value terms by federal district in 2010



Source: RF Federal State Statistics Service