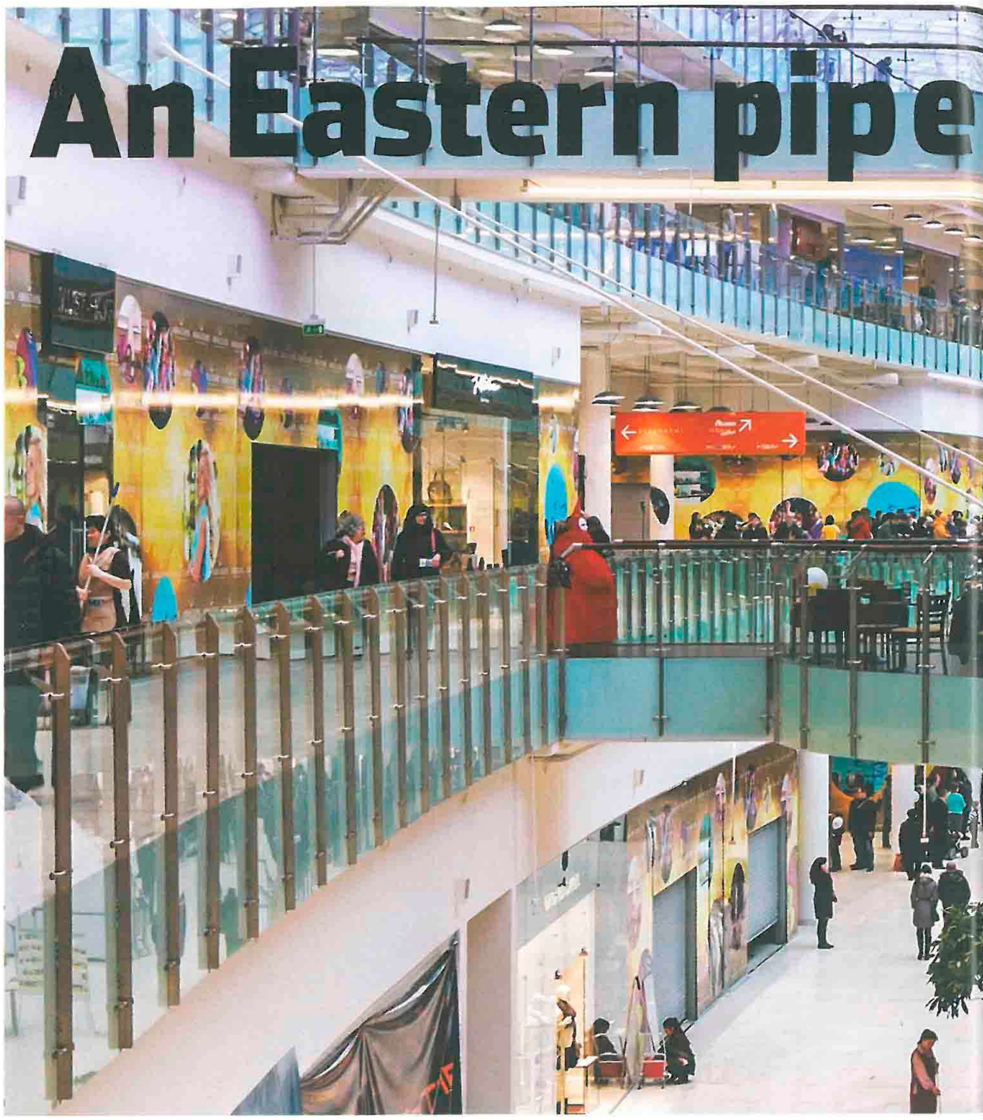
An Eastern pipe

How has the retail property market responded to political uncertainty in Russia and instability in Turkey? **Mark Faithfull** investigates



In November last year Russia's strident ascent to become the largest retail market in Europe was underlined when the biggest shopping mall on the continent was declared open in its capital, Moscow, amid appropriately extravagant fanfare. Three years in construction, Aviapark covers the equivalent of 36 football pitches and when operating at full capacity will have 80 restaurants, a 17-screen cinema and more than 500 shops.

Yet despite recently hitting 50% occupancy and 85% in confirmed lettings, the shopping centre could hardly have opened in more uncertain times. With a plummeting rouble and fears of a major economic slowdown, Aviapark is not only the largest but possibly the last of the mega-projects to open, at least for a while.

Russia, along with Turkey, has been dominant in delivering current and prospective retail space. Altogether in Europe, including Russia and Turkey, some 54 million sq ft of retail space was added between 2012 and 2014, bringing the total existing shopping centre space in Europe to 670 million sq ft, according to the International Council of Shopping Centres (ICSC). Turkey accounted for 19% – or 10 million sq ft – of the space delivered in that time, while Russia and Poland accounted for around 9%. Last year Russia overtook the UK as the second largest shopping centre market by space, behind France.

Uncertain times ahead

But international investors – still highly risk averse – have been spooked by the Russia/Ukraine crisis and a number of incoming retailers have stopped or delayed their market entry or expansion. Ironically, Russian retail sales in December jumped 5.3% from a year earlier, according to the Federal State Statistics Service, as shoppers spent their tumbling currency while they could. Looking ahead, consumer demand may decline between 7% and 9% in 2015, economy minister Alexei Ulyukayev admitted.

At least 20% of the planned malls in Moscow will be postponed by up to two years, according to Olga Yasko, director of analytics and market research for real estate consultancy Knight Frank. Adviser Jones Lang LaSalle (JLL) puts that number even higher, predicting that work will stall on as much as 4 million sq ft of the 9.5 million sq ft initially planned for malls in Moscow alone.

"Everything depends on how many planned projects have already received financing," says Olesya Dzyuba, deputy head of research at JLL. The Central Bank's interest rate is set to help shore up the flagging rouble, meaning that Moscow real estate investors face punishing interest rates of 20% or more.

It gets worse: banks may begin to repossess shopping malls in the second to third quarter of 2015, according to JLL. In addition, prime rental prices fell 20% last year to hit an average of \$400 (£273) to \$1,450 (£990) per sq m, and 30% in secondary malls, with further decreases expected this year. To insulate retailers from exchange rates, many landlords may follow Ikea's lead and switch rental rates from dollars to roubles.

"Most of the development pipeline was already in construction, so the view on the ground in Russia is that these projects have been delayed 12 or 18 months, not stopped," says

New Turkish mall Forum Diyarbakir

> **The mood is actually quite upbeat, the main concern is the unpredictability of what's happening**
>
> **Andrew Phipps, CBRE**

dream?

Moscow's Aviapark houses more than 500 shops

OLEGDOROSHIN / SHUTTERSTOCK.COM

Andrew Phipps, head of EMEA research and consulting at agent CBRE. "The mood is actually quite upbeat, the main concern is the unpredictability of what's happening. But the fact that some international retailers have deferred their expansion plans has given domestic retailers the opportunity to push ahead."

Similarly, Cushman & Wakefield head of retail services in Russia Maxim Karbasnikoff reflects: "Strong development activity since 2010 has led to a very large pipeline now being delivered. However, political uncertainty, steady depreciation of the rouble and stagnating consumer demand is pressurising retailers. Nevertheless, fundamentals are still positive in the mid-term and we expect vacancy rates to stabilise and rents to reach a healthier level in the coming six months."

Focus shifts to Turkey

Turkey's situation is less critical but nonetheless the social and political upheaval in Istanbul and the terrorism threat to the country's eastern borders have also had a negative impact on the retail market. After a long period of construction, it is likely developers may take a step back and new construction will be replaced with extension and refurbishment of early generation malls.

The number of shopping malls has more than quadrupled in the last decade, although gross leasable area per 1,000 people at 120 sq m is still below the EU average. Istanbul is the centre of the retail market as it is the location for the majority (60%) of shopping malls in Turkey, followed by Ankara and Izmir, which together represent another 16%. Major investments are expected in the Marmara, Black Sea and Mediterranean regions. "It will be interesting to see what the Turkish do with the shopping centres, because it's the first real cycle of asset management in the country after sustained growth," says Phipps. "Traditionally the Turkish malls are very strong on food and beverage and we would expect to see the malls reconfigured to allow for a smaller number of larger stores."

> **We expect vacancy rates [in Russia] to stabilise and rents to reach a healthier level in the coming six months**
>
> **Maxim Karbasnikoff, Cushman & Wakefield**

The benefit to Western markets

The impact of a slower pipeline in Turkey and Russia is most likely to benefit the traditional Western markets, notably Germany, France, the UK, Spain and Italy, plus the Nordics. These also lead the ranking for planned refurbishment, including redevelopments and extensions, according to Cushman & Wakefield. The UK is well ahead and accounts for 13 million sq ft of the total 82 million sq ft recorded for the whole of Europe. Germany and France rank second and third.

Such is the demand for German retail space that Andreas Mattner, president of German property federation Zentraler Immobilien ↘

European shopping centre development

Percentage of total European shopping centre gross leasable area for 2015

67.5% Central/Eastern Europe

32.5% Western Europe

Top five countries

For shopping centre pipeline development second half 2014

1 Russia	**49 million sq ft**
2 Turkey	**24 million sq ft**
3 France	**9.7 million sq ft**
4 Germany	**6 million sq ft**
5 Poland	**5.7 million sq ft**

SOURCE: CUSHMAN & WAKEFIELD

Ausschuss, says that companies need to "look beyond Germany's big seven cities" to the next tier of 25 or so prosperous cities.

"We are seeing strong migration from rural areas to these secondary cities," he says. "We are also working with the government to encourage it to reconsider some of the restrictions on retail planning and opening hours, given the competition from ecommerce."

Sweden and the Nordic markets are also attracting increasing interest, with retail likely to be the strongest sector in 2015, according to Anders Nordvall, the recently appointed chief executive of Cushman & Wakefield in Sweden. Stockholm remains the gateway city to both Sweden and the wider region but investors are also targeting Oslo, Copenhagen, Gothenburg and a number of other key cities, he says.

Major shopping centre deals involving Unibail-Rodamco and TIAA Henderson Real Estate have boosted the retail sector, and Nordvall adds: "It is a very busy market and we expect a strong 2015, with an increasing percentage of the total investment coming from outside the Nordics."

With so much of the proposed new space now on ice, the focus around Europe will be on existing space and what landlords can do to make their centres more appealing.

That is likely to be good news for Europe's big five, and Turkey's demographics should be compelling enough to entice retailers – though its long textiles heritage makes for a very competitive fashion industry – but for Russia the picture is far less clear and Avivapark's opening may be remembered as a watershed moment for all the wrong reasons.

Ikea plans to invest in the Russian retail market

Russia: pushing ahead or pulling out?

Western retailers have responded to the worsening situation in Russia with distinctly different strategies. Notable among supporters is Swedish furniture chain Ikea, which plans to invest €3bn (£2.2bn) over the next few years in the construction of 20 shopping centres anchored by Ikea stores, adding to its already extensive portfolio. The group has established a new division, Ikea Centres, for the expansion, replacing Inter Ikea Centre Group, which previously managed 34 Ikea shopping centres and retail space across Europe, China and Russia.

French grocery chain Auchan has continued to pledge expansion in Russia, while Metro Group's Media Markt and Media Saturn chains continue to grow.

However, in the fashion sector New Look publicly canned plans to expand in Russia, and franchisee Maratex (71% owned by Poland's EM&F Group) closed the franchises for Esprit, River Island and OVS. Finnish department store chain Stockmann shut down 16 of its fashion outlets in Russia last year, while a host of retailers from Zara to Adidas have pared back expansion plans.

Auchan continues to pledge expansion in Russia

PAVEL L PHOTO AND VIDEO / SHUTTERSTOCK.COM