



Shops for Wealthy Provincials

❖ The market of retail properties in Moscow and St. Petersburg is bent on steady saturation and so a growing number of national chains consider regional expansion.

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Through the O'Key chain, during the nearest two or three years, plans to open 14 hypermarkets in the cities of North-Western region, with only one located in St. Petersburg. One of the O'Key rivals, the network of Lenta hypermarkets, has already opened its stores in Veliki Novgorod, Petrozavodsk, Pskov and Cherepovets and is not going to stop at that. The chains of jewelry shops "585" and "Zolotoy" look for spaces in Archangelsk and plan to open their shops in Pskov and Novgorod.

Scale of attractiveness

So why is the North-Western region so interesting for expanding retailers and how is it specific? As per the research of GVA Sawyer, the regional retail property market is characterized by a ROI that is 1.0–2.5% higher than in Moscow and Saint Petersburg where the rate of return from shopping malls is estimated at 9.5–10.0%. Given the higher logistics costs, federal operators may hope for the same level of yield in the cities of North-Western region as in St. Petersburg. The rental rates in existing regional shopping centers range from 5,000 to 26,000 rubles/sqm/year (triple net) depending on the volume of space and product types. This said, the developers in almost all northern cities overvalue the rates, understanding the region's potential. That is, entering the regions, many chains expect the lease bids to be lower than in the capital cities. Yet the level of rent there proves similar.

The most attractive cities of North-Western region in terms of average wages are obviously such northern cities as Naryan-Mar, Ukhta, Murmansk and others. However it would be more correct to assess the attractiveness of different cities in terms of per capita retail turnover. From per capita retail turnover perspectives most attractive are such cities as Murmansk, Kaliningrad, Naryan-Mar, Veliki Novgorod and Petrozavodsk.

Per capita retail space should also be taken into account. The maximum amount is found in Syktyvkar, Kaliningrad, Petrozavodsk, Veliki Novgorod and Murmansk. It also makes sense to estimate such parameter as specific conventional turnover, where the leaders are Pskov, Kaliningrad, Murmansk, Petrozavodsk and Vologda. Comparing the above-stat-

ed parameters, we can conclude that the most attractive cities for retail expansion nowadays are Kaliningrad, Murmansk, Petrozavodsk and Veliki Novgorod.

Kaliningrad can be the only exception, since there is already a large supply of quality shopping centers there, whereas the number of chain operators is comparable to St. Petersburg. Leningrad region, where living standards have been growing of late, should not be forgotten either. Developers step up their operations not only in the cities that lie near to St. Petersburg but in remote places too.

Low-quality volume

The main difficulty faced by the federal chains in their attempts to enter the local market is almost a complete lack of quality retail space (with the exception of Kaliningrad).

Let's consider the situation with really existing retail properties in the largest and most developed cities of North-Western region. Talking about Kaliningrad, we've already mentioned that this city is mostly saturated with modern-day shopping centers. Per capita provision with quality retail space is comparable with the level existing in St. Petersburg. At the present time more than 80 shopping centers and large supermarkets function in the city, of which more than 10 are large contemporary shopping centers, with total area ranging from 6,500 sq.m (SC Kaliningradsky Passage) to 50,000 sq.m (Clover Citycenter) and GLA ranging from 4,000 to 16,000 sq.m. In most of them the retail function is combined with the office function and the number of car spaces varies between 60 and 720.

Functioning in the city of Murmansk are about 40 relatively large shopping centers and supermarkets, of which only 2 quality retail centers have decent quality: 22,000-sqm SC Forum (GLA – 16,200 sq.m) and 46,000-sqm SC Severnoe Nagornoe (GLA – 28,000 sq.m, including the second phase); both shopping centers are equipped with parking lots. Standing out among other retailers is the local retail chain Evros numbering 9 shopping centers and hypermarkets of various sizes. Planned for opening in 2015 is another 60,000-sqm retail complex under this brand (GLA – 47,800 sq.m).

Petrozavodsk has 11 relatively large SCs and hypermarkets; however they rep-

resent low quality antiquated formats. The only exception is the 55,800-sqm SC Maxi (GLA – 28,600 sq.m; underground parking – 400 car spaces). The given center was opened in August 2012 and, in addition to the retail function, it also features entertainments: multiplex Mirage Cinema and children's entertainment zone Deify. Scheduled for 2012 is the opening of 77,000-sqm SC Laplan.

Not only nationwide players are willing to expand in the North-Western region. Noteworthy among the most rapidly developing local networks are the Finnish chain of hypermarkets and supermarkets PRISMA, Polushka chain of self-service stores, Petrovich network of trading houses (building materials).

Local vs federal chains

PRISMA takes leading positions on the retail trade market of Finland and has more than 2000 shops of various sizes, including 56 hypermarkets. The given chain operator successfully carries out its activities in Russia, Estonia, Latvia and Lithuania. PRISMA has been present on St. Petersburg market since 2008 and now numbers 9 supermarkets and 2 hypermarkets. About 30 PRISMA stores are scheduled for opening in St. Petersburg and Leningrad region in the years to come. Apart from shops, the Finnish retailer has leased about 7,000 sq.m of space in the logistics complex Nordway (St. Petersburg) in order to launch its first in Russia distribution center. This will allow the company to centralize up to 50% of all its supplies and cut logistical expenditures in the region by 10–15%.

Polushka chain of self-service stores offers a wide variety of foodstuffs and concomitant goods and targets the middle-class buyer. The chain is represented by such formats as "convenience shops", "minimarkets" and "supermarkets". As of today Polushka numbers 92 self-service stores in St. Petersburg, Leningrad and Novgorod regions.

STD Petrovich (Petrovich and Uroven networks) owns five regional construction stations and 14 stores in Leningrad and Novgorod regions. A new construction station will open in late 2012 in Petrozavodsk and then the retailer intends to enter the markets of Vologda and Cherepovets.

The given examples of expansion accomplished by retail chains make it possible to conclude that developers start active operations both in big and small cities of North-Western region. One should not forget the difficulties that may await the operators entering a local market. On the one hand, it is much more convenient for them to work with a national or even transnational supplier

who could easily ensure the requisite volumes and times of deliveries as well as to pay a decent bonus calculated as commodity turnover percentage, cover marketing costs, pay for the delivery of each novelty to the market, etc. Harvesting such bonuses from the manufacturer, a chain may afford various promo-actions and guarantee low prices. On the other hand, local products are always in demand among the population and retailers are well aware of that. What's more, such products bypass the stage of intermediary supplier, being directly shipped to a store, which beats down the prices. Yet not all local manufacturers are capable to ensure the required supply volumes.

Therefore nationwide operators will mainly expand in the region by opening their own stores. Merger and acquisition or franchising schemes are not so frequently used. The main reason is low sectoral standards still crippling the work of many regional operators. Companies mainly exploit the stores opened ten or more years ago, where sales areas occupy no more than 70% of the total area, items are displayed at two or three levels, antiquated equipment is used, and lighting and ventilation schemes leave much to be desired.

One should not forget that against the general industrial decline nowadays regional retail companies are the main source of revenues for many local budgets. In this connection the position of local players in their regions is rather strong and, unlike the nationwide operators trying to enter the local market, they may count on the support of local authorities. The latter are not interested in the coming of federal operators which pay taxes to the federal budget, rather than to the local treasury.

Local developers generally use rather conservative methods of work and all issues in small cities are settled using the public administration leverage. If a developer is going to build a large quality project that will be significant for the region it may well enlist the support of local administration.

Another distinguishing characteristic of some small cities is that local residents do not suffer from the "distance complex". Thus it's quite normal for the residents of Murmansk region, for example, to drive 100 km to the nearest shopping mall or movie theatre. A regional center attracts not only the city dwellers but also people from nearby settlements. Due to this specificity, the number of potential visitors may double or even triple. And unlike larger cities, projects located on the outskirts can be quite successful owing to this effect. □ | R | e