



Izvestiya Building Turns into Mixed-Use

Moscow bids farewell to the legendary Izvestiya building that will be redeveloped into a new mixed-use center. The project described as questionable by some market participants and as controversial by others will take three years to be delivered.

One of the first business buildings in Soviet Moscow, created in the style of Constructivism by architect Grigory Barkhin in 1925–27 and now being the asset of Presidential Property Management Department, has been in a rundown state for several years already. The editorial staff of the Izvestiya newspaper actually abandoned it 18 months ago; some of the quarters were occupied by the Tverskoy Passage store that was scandalously closed down in October on the owner's demand. In response the tenant Piramida-2000 stated that the owner was forcing it to rescind a 20-year lease agreement signed back in 1996, and characterized this tactic as a hostile takeover. In addition, the so-called comprehensive reconstruction (with dismantling of some structures and new construction of 10 buildings for the editorial office – a quarter bounded by Pushkinskaya square, Tverskaya St, Malaya Dmitrovka St, and Nastasyinsky Bystreet) is totally prohibited for architectural heritage buildings. The architectural community and public activists (Archnadzor, in particular) have already pointed to this fact, having shared their fears that the erection of a mixed-use center might change the image of Pushkin square beyond recognition.

The reconstruction project developer (the investment contract is estimated at \$15.8 bln) was named back in 2006 under Yuri Luzhkov – little known on the market Legacy Development with an authorized capital stock of 10,000 rubles. Yet no works had been done till October 2012. It became known the other days, however, that the general contractor will be Tashir Group. Based on an investment contract worth \$500mn a 168,000-sqm mixed-use complex must rise here. Tashir may get a certain stake in the project. Tashir, in the person of Tashir's PR manager Marina Gaze, refused to comment on the situation as of the time of this issue's release to the printer.

In his turn, Viktor Khrekov, Press Secretary of Presidential Property Management Department, announced that the new multifunctional complex will house restaurants, concert hall and exhibition venues. CRE tries to grasp whether this new MFC is altogether needed at this place in Moscow and if so, then in what form.

In the opinion of Elena Lisina, deputy director of strategic consulting and appraisal at CBRE, opinions about the efficiency of the MFC format today are rather contradictory. "Mixed-uses are traditionally harder to manage than single-function properties," says Ms Lisina. "They are difficult to implement successfully, first of all, because every function requires its own logistics, whereas the premises are to be arranged so that they might be complementary. This is achieved by competent zoning and effective layout solutions. Meanwhile a skilled selection of functions may greatly raise the property's attractiveness and therefore the entire economics of a project – thanks to a synergy effect."

However, as estimated by the market players, premises on the key retail route of Moscow will always be in demand, but largely as street retail. Ms



Elena Lisina
CBRE
Елена Лисина

Lisina mentions the existing structural design as well as the impossibility to organize ample parking space as limitations for a full-scale shopping center. In her turn, Vera Setskaya, president of GVA Sawyer, thinks the shopping mall's format is unacceptable in the historical center in most cases. The main problem is access ways providing for the essential traffic, along with parking spaces, lists Ms Setskaya. The practice shows that even spacious underground parking is not enough while the arrangement of an outdoor parking lot becomes a serious problem. The second difficulty in downtown Moscow is the availability of branchy engineering infrastructure underground, including special telecom systems within the jurisdiction of state security services. In the upshot the development of underground space in central Moscow is either very expensive or just impossible. A mixed-use with a competent functional mix might be an acceptable solution allowing competent utilization of the building and adjacent grounds – with minimum environmental impact, Vera Setskaya believes. As regards the “door-to-door” exit from the subway that already existed in Tverskoy Passage, this can also be a disadvantage. Access to the complex via the metro's entrance lobby may end up in the dictatorship of midmarket brands and cause problems with the attraction of luxury brands to the upper floors. “For the mixed-use format to function successfully, it should be understood that all premises in the complex must fall within the same pricing segment – for appropriate positioning of the entire complex,” the expert reminds.



Vera Setskaya
GVA Sawyer
Вера Сецкая

Yulia Nikulicheva, Head of Strategic Consulting, Jones Lang LaSalle, describes the locus of the Izvestiya building as a “gold place” and says that any real estate function can be realized within the mixed-use center. In high demand will be retail, for which large space was originally earmarked – all underground space and the first floor level; but it should be borne in mind that retail premises will require larger parking space, while the loss factor is higher. The office space realized here will fall within the Kremlin zone and will be rented out at premium rates (\$1000–1200 per sq.m per year).

Denis Trushchenko, Managing Partner, Bluestone Group, thinks the creation of a mixed-use center in downtown Moscow well fits into the general trend of renovation or construction in Moscow. Vladislav Vasnev, board chairman of Piramida 2000, reminds that any large property in Moscow overtakes the transport and infrastructure at

large, including engineering networks, and whenever one resolves to build another multipurpose facility, “this is a very responsible move.” Mr Vasnev thinks it necessary to hold public hearings to discuss the development project.

Major market players generally agree on what “Tverskaya lacks” today and whether the new MFC will be able to “struggle.” Denis Trushchenko laments almost a complete lack of thru retail passages in central Moscow, similar to Petrovsky. Vladislav Vasnev mentions the shortage of hotels, cafes and other facilities found in abundance on main European streets. Vera Setskaya and Yulia Nikulicheva say about housing with street retail, including restaurants, banks, boutiques and boutique hotels. Elena Lisina opines that an office part and a hotel would be pertinent in a multifunctional center, but the issue of parking will have to be addressed.

Who stands behind such development structure as Legacy Development? Who has the chances to get involved in this project? Who will be the anchor tenants in the complex? The professional community has had no answers to these questions to date. “Anywhere else in the world the status of tenant owner would be looked upon as an additional advantage in the delivery of a real estate object,” shares Mr Vasnev. “As you may see, not only are we not invited to participate in the future project; they let us know, using all means including force, that we stand in their way, that they do not want us here. I would not name the potential stakeholders, although we know them, to be sure. These must be companies having essential experience and helmed by competent people. At any rate, the project does not have requisite documentation at present. Reconstruction has been declared, but things do not move further.” Denis Trushchenko believes that much will depend on the quality of issued “papers” to avoid “any problems in the future as well as disputes on the rights of ownership after the project is complete.” “I think the structures related to the owners of Evropeisky mall and Ukraine Hotel will be involved in the project.” This could be of interest to several oligarchs, including the owner of Bazovy Element,” lists Trushchenko. The fate of the Izvestiya buildings and their neighborhood seems to be a tabooed topic for many market players – at least five experts flatly declined to comment on this situation on the premise that it is “too complicated.”

It's symptomatic that Moscow today almost lacks any successful case studies of Soviet property redevelopment into mixed-use centers. Ms Lisina remembers Smolensky Passage, Tretyakov Plaza (MFC Sheremetyevsky), and Vozdvizhenka Center (former Voyentorg), adding that the commercial success of their retail parts is a big question. Thus, after the anchor tenant (Stockmann department store) moved out of Smolensky Passage, the attendance of the shopping mall decreased dramatically. Mr Trushchenko mentions the Actor Gallery as one of the first attempts at redevelopment, dating from the nineties: the project is morally antiquated, but still rather attractive as a small MFC. Vera Setskaya cannot recall any successful metamorphoses of old buildings into mixed-uses and argues that renovated properties that did not change their original designation function more smoothly than others. One example is Izmailovo Alfa, Beta, Gamma-Delta and Vega hotels or office facilities created in Soviet administrative edifices. Ms Setskaya anticipates the salvation of several famous Constructivist buildings and their adaptation to new functional uses. “It hurts to see the objects studied at Western architectural schools crumbling before your eyes.” c|RIe