



In five years to come even the most restrained foreign and Russian investors will feel warmer towards regional retail projects. Largest developers and retailers cautiously talk about great interests “far away from the capital cities” and emphasize: it is getting ever more difficult and expensive to enter some regions with each passing year, whereas others are closed already now. Meanwhile Perm, whose provision with quality retail space remains the lowest among the big Russian cities, does its best to do away from the fame of being the most closed region for investors. The local authorities say they wait for everybody and are ready to offer reasonable prices.

**A**s estimated by Knight Frank, robust development of the retail real estate market in Perm commenced in 2004, when eight large retail properties were opened. In that same year experts began talking about the excess of retail space in the region, but some time later the market entered its corrections: the attendance of shopping centers was on the rise and the vacancy rate was steadily dwindling. And today, according to the analytic center Mediana, demand for space at SC Almaz, TsUM, SEC Semya, Kolizey Cinema, SC Sem Pyatnits apparently exceeds the supply and tenants form long waiting lists. Overall 30 retail properties function in the city with cumulative GBA of 465,200 sq.m and GLA nearing 290,000 sq.m. Yet only four projects with the aggregate floor space of 162,000 sq.m are recognized by analysts as professional.

According to Yulia Merova, deputy director of commercial real estate department (retail) GVA Sawyer, in Q3 of 2012 per capita provision of Perm with quality retail space reached 440 sq.m of GLA per 1000 residents – sixth rank among the million-plus cities. Marina Malakhatko, business development director for retail space at Jones Lang LaSalle gives different statistics (231 sq.m per 1000 residents) and characterizes the Perm market as “absolutely unsaturated” and Perm itself – as one of the most attractive destinations for the construction of new retail projects. As was

revealed by a comprehensive analysis, taking into account both macroeconomic parameters and the opinions of retailers, developers and advisors, Perm is in the top three regional cities where construction on a shopping mall with the gross leasable area of 100,000 sq.m or more would be an attractive option for investors. “Administrative barriers have impeded the development of quality shopping space during the recent 8-10 years, as the city was actually closed for outside developers,” believes Ms Malakhatko. “For this reason, there is not a single Auchan store in Perm. Furthermore the process of project approval takes a long time here.”

In the words of Andrei Poluyanov, CEO of PAN City Group, his company was proposed to consider two sites: Krokhavev Center and Telta factory. Not only does Perm lack an Auchan; there is no IKEA which has been invited to enter the local market with enviable constancy since 2004. In spring 2007 the Swedish retailer was close to striking a bargain, but the deal was frustrated because of the conflict with the leaseholder – state farm Verkhne mullinsky. Two years later the company agreed on the purchase of land from the Perm horse-racing track and yet the deal was upset again. In May 2012 information appeared that IKEA was proposed to become an anchor tenant in a shopping center under construction, but at that time they let everybody know at IKEA's briefing center that the region might be interesting only over the long-term

horizon. At the moment of sending the given issue to the printer IKEA reemphasized that their plans had not changed and the company was not going to enter the Perm market in the nearest future. They presume at Knight Frank that in place of IKEA another development company might come up with a project of the first full-scale superregional mall. Moscow-based Origin-Capital is known to plan construction on a shopping mall on the Yekaterinburg – Perm route in a joint venture with Perm-based investor Sever Inc.

However, other major retailers, as estimated by Yulia Merova, are interested to expand into regions in the time to come. Thus METRO Cash & Carry plans to open its second in the city hypermarket (total area may come to about 10,000 sq.m), while X5 Retail Group is going to open a Carousel hypermarket on a plot of land at the intersection of Kosmonavtov and Stolbovaya streets. They relate at PAN City Group that German Real and Media Markt, British Norman Asset Management and St. Petersburg-based Lenta were looking for suitable plots of land. Analysts say the Perm players “were concerned” about the year 2012. “As of 2012 several retail projects were frozen in Perm, including SC De Luxe (premium-class goods, construction commenced in 2008), SEC Letuchiy Gollandets (developer – Smol-11, construction suspended in 2009 in the wake of the crisis), whereas the project of SEC Zakamsk City was halted at the stage of construction site approval,” says Ms Merova. At the

analytic center KD-consulting they point in response to several large and long-term projects, including a 35,000-sqm mixed-use in the center of Perm at the site of former confectionary, 43,717-sqm trading complex at 114 Speshilov St in the Kama Valley neighborhood, and the 11,779-sqm trading-exhibition center at 29a Pisarev St.

As reported by the Perm administration, they issued permits for more than 107,000 sq.m of commercial real estate during the first three quarters of 2012. Nevertheless there are quite a few projects among them that were not complete on time and so this figure testifies to resumption by developers of the already announced projects, rather than to the construction of new ones. As estimated by Mr Poluyanov, the figures for commissioned commercial real estate is significantly lower than the statistics for the issue of construction permits: from January through September only 14,000 sq.m of commercial space have been put to use.

The retail real estate market in the city of Perm (and in the entire region) has always been rather specific. Thus they note at Knight Frank that the city abounds in neighborhood centers (17 properties) – the extension of Perm implies that it is these objects that will be in demand among the consumers. Totally lacking are so-called “weekend SCs” outside of the city, large outlet centers, multifunctional projects with the retail function, a clearly designated and comfortable street-retail area. Entertainments are underdeveloped in the existing projects. For all that, some properties are regarded by analysts as interesting even by metropolitan standards – most often they mention SC “Sem Pyatnits”. The latter SC cannot boast high quality against conventional benchmarks, but it represents an interesting experience in combining a retail center with a bus station. Yet the footfall is not impressive, which can most likely be explained by the fact that potential buyers are distracted by the good old Central market lying near. Furthermore there is a rather inconvenient car exit from a parking lot adjoining a very congested road with one-way traffic and so buyers driving their own cars prefer to stay away from this route. A network of specialized home improvement shopping centers called Chkalovsky (four retail properties) has long been operating in Perm – the projects represent hangars and lack convenient layout, but remain very popular among the city-dwellers. There are very few DIY operators in the city, at that, Baumall and Castorama being the only well-known brands. Andrei Poluyanov also mentions a rather offbeat car park at the market-type SC “Almaz” that was actually a redevelopment of the eponymous center of household services. The parking lot is accommodated on its upper floors. “The Perm-based

developers are mainly geared towards metropolitan projects,” continues Mr Poluyanov. “On the whole the city lacks prepared sites and understanding of an integrated approach to development, which takes into account the opinion of real professionals in this sphere. The world practice is not taken into consideration either. In reality a project is delivered first and then, if it fails, some adjustments are made.”

The main problem with getting “an entrance ticket” has recently been described by market players not just as the notorious “administrative factor”, but also as the trivial lack of land for the construction of shopping centers, with good pedestrian and transport accessibility and requisite utility lines. In the words of Mr Poluyanov, foreign companies and federal chain players are confronted with local legislative and administrative barriers both at the stage of land selection and elaboration on the concepts of future projects.

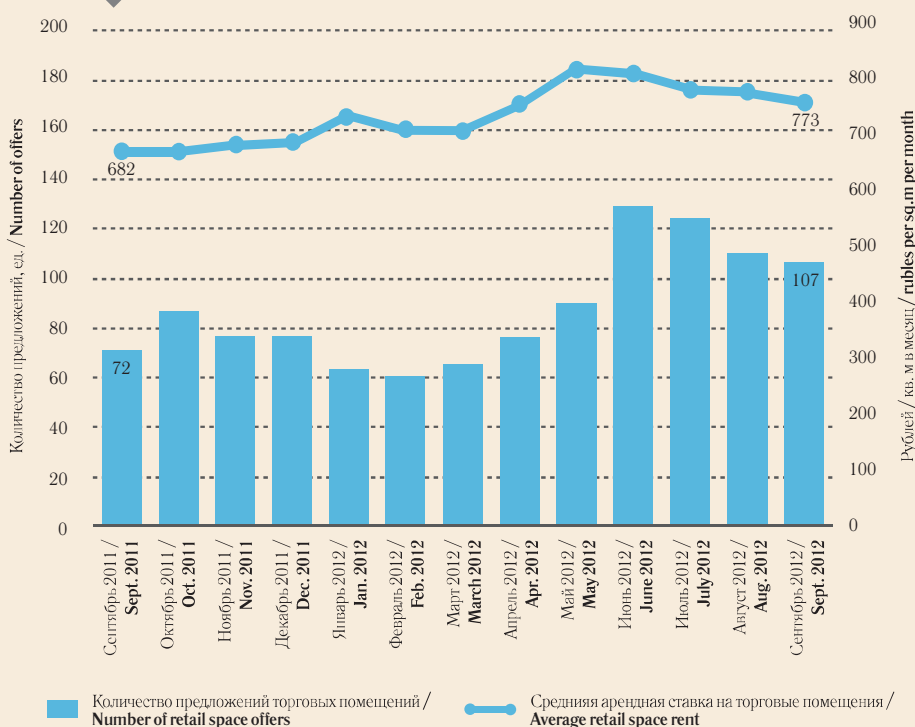
But the bottom line is that investors were weaned away from “coming to Perm.” “Recently the situation was rather difficult: while eight years ago Yekaterinburg, Chelyabinsk, Tyumen and Perm lived roughly in the same epoch, today the three former regions have shot far ahead, while Perm is still in the early 2000s in terms of real estate supply,” intimates Natalya Ivanova, PR Director at PIK Group. “This is probably the most amazing for Russian retailers and developers

Russian city with contrasts found nowhere else. For instance, a French restaurant with a refined cuisine and modern interior design or a clothing boutique with first-echelon brands can be accommodated on the third floor of a rather old semi-office facility. Meanwhile the region has enormous potential: there is an apparent shortage of quality affordable housing, SC, MUC and BC. The new governor repeatedly stated that he would radically change the situation. So “now is the right time to enter the Perm market”!

Analysts underline that even in case of most vibrant development the retail property market of Perm will long be far from saturation. “I am confident that the first professional shopping center with large operators, built in the inner city in close proximity to bedroom districts and boasting good accessibility, will instantly become a major hit in Perm,” believes Malakhatko.

The so-called “white spots” have long remained one of the main difficulties for potential developers. We should recall that as early as at the beginning of 2010 Perm’s municipal legislators approved the final draft of “Land Use and Development Rules” (LUDR); yet the map of urban development zoning in Perm retained “unidentified territories”, such as 118 Novogaiivskaya, airfield Bakharevka and car market “Kama Valley”. The lands were divided a long time ago between various landowners who could not

Динамика средних арендных ставок и количества предложений на рынке торговой недвижимости г. Перми / Dynamics of average rental rates and the number of offers on the retail property market in Perm



Источник / Source: Аналитический центр «КД-консалтинг» (Пермь) / Analytic center KD-consulting (Perm)

tackle their development, however, because the city authorities cannot decide what to build there. Thus it was planned that the issue of “Kama Valley” would finally be settled during 2012 – back in March curator of the general plan realization Arkadiy Kats, vice chairman of the Perm municipal legislature, described it as the “most important ‘white spot’.” Other “un-identified territories” are probably not so interesting for municipal officials and they did not allocate any funds for their planning in 2012. Accordingly, until recently the landowners also shunned discussing any definite plans – many have already put up with the fact that their landed property will long remain a “dormant asset.” But there are other versions as well. Back in spring the Perm community discussed the non-consent of the Dutch architectural bureau KCAP (authors of Perm’s General plan) regarding the development of Novogayvinskaya. One of the landowners Alexander Fleginsky thus commented on this problem: “The Dutch think you cannot build anything in the forest where mushrooms and berries should grow, while development is possible in a green field.” Nevertheless neither he nor other owners are going to scrap their land assets considering them “promising.” “As regards the functionality of land plots, the land use and development rules, rezoning of any land

for redevelopment is possible only through public hearings,” says Mr Poluyanov. “Thus a short time ago public hearings were held regarding the rezoning of the ‘Kama Valley.’”

Another “white spot”, or rather one of its parts, was acquired in 2007 by Moscow-based developer PIK Group that had planned to erect a mixed-use project prior to the crisis. Now, in the words of Natalya Ivanova, there’s some progress: in September the company announced about the development of a residential area with affordable housing (nearly 1m sq.m) in Bakharevka. Also planned in this district is the already proven in Moscow “PIK Retail” program with a unique pool of street retail tenants from among the local players and federal operators. In addition, PIK Group owns a plant of ferroconcrete components in Perm, which will allow it to build greater volumes quicker, Ms Ivanova opines.

As estimated by PAN City Group, one of the latest trends is focus on industrial zones. Historically, there are many such territories in Perm, straddling intense motor traffic, and interest therein will keep growing, especially among retailers.

As regards the supply analysis, in the words of Aleksey Skorobogach, deputy director of the analytic center KD-consulting, real estate listings feature spac-

es in shopping centers and in shops accommodated on the lower floors of apartment buildings. Considering the supply volumes in an open retail market, depending on the months one may find from 21,500 to 83,000 sq.m, which accounts for 2.2-8.3% of total retail space volume in Perm. One of the key parameters characterizing the situation in the real estate market is the average asking price.

Interestingly enough, such parameters as average wages and retail turnover in Perm are quite comparable with those of other million-plus cities which are far more saturated with quality retail space. The income level of 37,367 rubles/month according to Permstat is higher than the Russian average. Thus the huge potential for retail property development cannot be doubted, according to the leading players. The short list of the federal rating Top 100 Best Shopping Centers of Russia included three Perm properties: Stolitsa, Semya and Zemlyanika.

The players are unanimous: the prospects of retail real estate market development in Perm do not only depend on the plans of regional developers, but also on the readiness of nationwide and international companies to enter the region, and this depends on how quickly the regional officials succeed in breaking the blank “Perm wall” – not just in words. c | R | e

The image shows a screenshot of the IN.CRE.RU website. At the top, there is a navigation bar with categories: "СЕЙЧАС FREE", "Подать", "Компаниям", "Эксперты", "Образование", and a search bar labeled "поиск по базе". Below the navigation is a large banner with the text "БРО-КЕР! ЕСТЬ КОНТАКТ!". Underneath the banner are three property listings, each with a photo and a table of details. The listings include information such as location, type, area, and price. At the bottom of the page, there is a logo for IN.CRE.RU with the tagline "Real connections" and the text "Сообщество профессионалов коммерческой недвижимости". To the right of the logo, there is a large text block: "686 ОБЪЕКТОВ", "1000+ ПРОФЕССИОНАЛЬНЫХ СВЯЗЕЙ", and three columns of text: "УВЕЛИЧЬТЕ ПОТОК КЛИЕНТОВ", "ДОБАВЬТЕ СВОЙ ОБЪЕКТ", and "УСТАНОВИТЕ СВЯЗЬ".