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key facts for growth
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Expansion gathers pace in the East

The fortunes of Russia and the CEE markets have fluctuated over the past decade. But retail opportunities continue to emerge if you know where to look, writes Ben Cooper

THROUGHOUT the CEE region, there are towns and cities in need of investment and development. Changing shopper habits are opening the door for new sectors to take market share, and some truly exciting new centres are coming out of the ground.

Within this diverse and complex region, there is huge economic variety and a myriad of retail markets to understand. From the major capitals of Eastern Europe and Russia to the disparate towns of Siberia, there is very little uniformity. But this, suggests Simon Scott, head of international business at Leslie Jones Architects, which is leading the refurbishment and extension of Aquabel's Expobel in Minsk, is actually one of the region's assets. "There are some difficult markets but, equally, there

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Simon Scott

are lots of opportunities," he says. "Some retailers have decided to be cautious about some markets at the moment, but there is still a huge amount of opportunity in markets like Ukraine, Belarus and Russia." Given its huge size, Russia holds a great deal of potential, he adds — and not just in Moscow and St Petersburg.

Indeed, Russia has been on a phenomenal journey over the past 20 years. With 500,000 sq m of new shopping space completed in the first quarter of this year alone, a huge part of this has been a total transformation of its retail-property market. Among the key developments to have opened are the 136,000 sq m Columbus shopping centre in Moscow, and Europe's largest shopping centre, the giant 230,000 sq m Aviapark. And in June, IKEA Centres Russia announced major plans to expand its mall space, citing strong tenant demand for its MEGA malls in Tyoply Stan and Khimki.

The occupier side has been busy too. In the past year, internationally renowned toy retailer Hamleys opened its largest store worldwide in Moscow; Forever 21 celebrated its first year

Russia & CEE

of trading in Russia; a standalone H&M Kids made a rare opening; and UK fashion sensation Superdry opened its first raft of Russian stores. Another positive indicator, despite the fluctuations in the Russian market, has been international clothing empire Benetton, which at the end of last year announced ambitious plans for the country, as well as further afield in the region.

But the uncertainty in the wider economy has undoubtedly caused some retailers to exercise more caution. However, as Planet Retail analyst Derya Guvenc Yildiz says, the opportunities are still there if you know where to look: "International retailers will take cautious steps as most of them have to focus on their home market operations too. As a result, they are investing in store refurbishments to boost profitability, rather than new stores. That said, Schwarz Group's Kaufland is dedicated to expansion, especially in Romania. Lidl, on the other hand, has just invested in its largest warehouse ever in Bulgaria."

For retailers it is an auspicious time for a move to Russia, because at the moment it is largely a tenant's market. Elena Zadorozhnaya, head of retail tenant representation, JLL Russia and CIS, says: "Retailers see that they can ask more from landlords at the moment, and get more benefits. Key premises and markets are becoming much more available."

The CEE market

One of the major success stories of the CEE in the past decade has been Poland. With a GDP



The Posnania mall in Poznan

"Posnania will reflect the expectations of a generation that is more sensitive to environmental and quality-of-life issues, open and curious about the world and new technologies, and expecting much more than a basic retail offer"

Fabrice Bansay

of 10.3% in the past three years and half a million square metres of shopping-centre space opening last year alone, there are opportunities for investors and retailers in abundance. One of the biggest developers in Poland is Apsys, which is in the process of delivering what will be one of the largest schemes in the

CEE region. Located in Poznan, Poland's fifth largest city, the Posnania mall will cover a massive 100,000 sq m and be home to 300 retail and leisure stores when it opens next autumn.

CEO of Apsys Poland, Fabrice Bansay, says that Posnania takes a step forward in Polish retailing and reflects a new type of shopper: "It will be a generator of customer flow. Posnania will reflect the expectations of a new consumer generation — a generation that is more sensitive to environmental and quality-of-life issues, open and curious about the world and new technologies, and expecting much more than a straightforward and basic retail offer."

Another major developer in the region, HB Reavis, which has already completed a number of key shopping centre schemes in Slovakia, is now turning its attention to the Czech Republic. HB Reavis has two big Polish schemes under way — in Hradec Kralove and Brno — which by the time they are complete will have added a total of 54,000 sq m of brand new retail space to Poland's stock.

In August, Globe Trade Centre (GTC) signed loan agreements with Bank Pekao. A construction loan of up to €116m and an investment



Hamleys biggest store is in Moscow, designed by Fitch

Russia & CEE

loan of up to €175m will be used to finance the development of Galeria Połnocna shopping centre in Warsaw, which went to site in July. The scheme began with more than 32% pre-leased, with tenants including Carrefour, Cinema City, H&M and the LPP Group. Erez Boniel, GTC chief financial officer, says: "We are certain that our project will contribute to Warsaw's retail market and Galeria Połnocna will be the first major modern shopping and entertainment centre located in the north-eastern part of Warsaw."

Meanwhile, in autumn next year, 24 new brands will join the offer at Liebrecht and Wood's Fashion House Outlet Centre Moscow, bringing the total number of brands to 132. These will all be opened in the second phase of the project, adding 4,500 sq m of GLA to the centre, bringing the total GLA to more than 20,000.

"With the opening of Fashion House Outlet Centre Moscow in 2013, we established the outlet market in Russia. Since then, we have heard a lot of feedback from both customers and our business partners. We are going to use this insight to even better answer the needs and desires of our key target groups when opening the second phase of Fashion House Outlet Centre Moscow," says Brendon O'Reilly, managing director of Fashion House Group. Fashion still dominates much of the retail spend in the region, but an emerging sector — value food — is going from strength to strength. JLL's Zadorozhnaya says: "Many of the discount grocers have increased their expansion plans in the last year and there is a lot of competition in the big cities and regional cities for space."

German discounter Aldi is among those retailers expanding aggressively. Within Russia, a major bit of news from the discount market — the acquisition in July of 100 Soseddushka stores by Aldi rival X5 Retail Group — was a clear sign of the times.

Planet Retail's Yıldız says this trend is being repeated not just in Russia, but throughout the CEE region. "In Russia, price-aggressive small-format grocery players such as Magnit and X5 Retail Group are expanding aggressively with steady like-for-like performance," she says. "Magnit has increased its 2015 year-end store opening guidance, as it sees an opportunity in lower rent levels."

Outside Russia, Yıldız adds, various other trends are emerging: "Poland is a discount-led market, but convenience is growing



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Elena Zadorozhnaya

rapidly. Both Biedronka and Lidl are investing in larger stores, higher numbers of SKUs and, especially, premium private-label ranges to boost sales per store. Rather than expanding into smaller second- or third-tier cities, the focus is back on Warsaw and the high street. Carrefour is also investing in its c-store network in Poland."

Such complexity may seem daunting, but large populations in untapped markets are precisely the sort of environments in which retail property thrives. And with enough local knowledge and research, Leslie Jones' Scott says, there is plenty more success to be had for the players that get it right. "It's very important to tune your knowledge and best practice to local areas and do lots of research," he adds. "But with such big populations, there are still lots of opportunities".

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Russia at MAPIC

Organised by Impress Media, the traditional Russian Breakfast on 19 November will bring together more than 250 leaders from Russian and foreign development, investment and retail companies and the topic of the 23rd Russian Breakfast is "Add the difference: contemporary solutions for increasing occupancy of shopping centers". For the Russian Breakfast call Irina Shateeva on +7 905 711 4560.