ERES Industry Seminar panel (from left to right): Oleg Voytsekhovsky, General Director, RCSC Russian Council of Shopping Centers; Anastasia Ostretsova, Translater; Andreas Schiller, moderator, PIE Editor-in-Chief Russia-CIS; Heiko Davids, Partner, Knight Frank Russia & CIS; Florian Schneider, Lawyer and Partner, Salans; Bernd Hallier, President, European Retail Academy.

ERES on tour: View over Moscow and the Moscow river (above) from top of Imperia Tower at MIBC Moscow International Business Center Moscow-City. Main office tower (centre).

ERES holds first seminar in Russia; Moscow retail demystified

By Andreas Schiller, PIE Editor-in-Chief, Russia-CIS

It was a premiere for both: The first-ever European Real Estate Society seminar in Russia at the end of October, bringing academic and experts together around the topic, Russian Retail Real Estate Market – Yesterday, Today, Tomorrow, and many ERES delegates visiting Moscow for the first time.

Delegates were impressed by the dimensions of the city and its huge real estate investment market. But more important than size and all the topics discussed and projects visited: Moscow was shown no longer to be a 'Mystery in the East' but a normal, developing metropolis –with differences to western cities but with comparable professionalism, comparable challenges and solutions, similar research requirements and tasks ahead.

Despite the crisis, retail real estate is and remains a key theme: Only three weeks after the seminar, the country's biggest compact retail space celebrated its opening: the shopping and entertainment centre Golden Babylon Rostokino in the Sviblovo district of Moscow. At 170,000 sq.m. GLA, Rostokino offers 440 shops and a rental income of around €100m p.a. It was developed by Russian company Patero and Austrian investor ImmoEast. Its opening only just pre-dated another, at the opposite end of the country, the City Mall Sakhalin in Yuzhno-Sakhalinsk on the remote island of Sakhalin, north from Japan (see details on next page).

The ERES Industrial Seminar broke with tradition of university campus locations and took place in the conference venues of shopping centre TK Gallery Aeroport. On the panel were Heiko Davids, Partner, Knight Frank Russia & CIS; Prof. Dr. Bernd Hallier, Founder and Managing Director of European Retail Institute EHI and President of the European Retail Academy; Oleg Voytsekhovsky, General Director of the RCSC Russian Council of Shopping Centres, and 'father' of the Moscow retail real estate exhibition Mall and Mallhouse Publishing – media partner alongside Property Investor Europe. The seminar was held in co-operation with RCSC and the European Retail Academy and supported by the German Society for Property Research (gif) as well as real estate investment fair Real Vienna. Russian firm Garant-Invest, developer and owner of Gallery Aeroport, was host.

Retail real estate in Russia has an enormous potential for retailers and investors, Davids said. "Despite current unfavourable macroeconomic situation, retailers continue to develop traditional formats and are starting to develop new chain projects," he said. Funding is also available. But the crisis has made clear that even if Russia is one of Europe's largest consumer markets, project parameters must be right and expectations must correlate with experience. "Price pressures will continue for projects in the wrong location or with weak concepts. Recent reductions in costs of construction, rent, sale, marketing campaigns, logistics and wages now allow international retail operators to take up new projects and reclaim new regions." Hallier recommended tracking retailers, citing brands already active in Russia including Auchan, C&A, GAP, H&M, IKEA, Leroy Merlin, Metro Cash & Carry, Real and OBI. However the sector comprises so many different types – shopping centres, high-street, mega malls, factory outlets, flagship stores, hypermarkets, supermarkets, and other more.

In fact, differentiation plays into the strengths of the privately-owned Garant-Invest Group. Key business areas for the company, established in 1993, are investment and development as well as property and asset management, and has boosted market share through construction company Stroyservis Construction Association. The group is additionally engaged in retail and commercial banking via the Garant-Invest Bank, while Garant-Trade M is the operator of Moi Magazin chain, which also manages several neighbourhood shopping centres. Its best known malls to date include Gallery Aeroport, Retail Park, Kolomenskiy and Prazhskiy Grad – and some 12 more, all in Moscow. Belying the name, the three-storey Gallery Aeroport, comprising roughly 60 shops, is not located at an airport at all but at a metro station at Leningradskiy Prospect. It was named after a former airport premises, and designated Best Shopping Centre in Moscow and Russia.

Another Garant concept is Retail Park, while a further important component of retail real estate are neighbourhood shopping centres, about which Garant-Invest notes: "Opportunities for investing in construction of such centres are greater than with common shopping centres, due to smaller size of land plots, short construction periods and great popularity." It implements these with funding via closed-end real estate investment funds.

Bringing historical perspective to the ERES discussion, Voytsekhovsky put short-term approaches into a long-term content. The famous department store GUM – at Red Square in Moscow opposite the Kremlin – dates back to 1893 and takes its name from the trend of upper retail rows in the 19th century, he noted. It became the sole department store in the former Soviet Union, and immediately after the lat-

ABOUT ERES

The European Real Estate Society was established in 1994 to create a structured and permanent network between real estate academics and professionals. Incorporating national property research societies, academic researchers and real estate practitioners, ERES is a non-profit organisation affiliated with the International Real Estate Society and is dedicated to promoting and advancing real estate research. ERES activities include the annual conference (the next on 23-26 June 2010 in Milan), industry seminars, education seminars and publications. More information at www.eres.org

Garant Group's Galeria Aeroport retail mall, located at the Leningradskiy Prospect metro station in Moscow, was named after a former airport premises on the site.

ter's demise was placed into the joint venture GUM Trade House. Another historical example is Detskiy Mir (Children's World) built in 1957 and currently under complete refurbishment. Another historic department store is TsUM, also close to the Kremlin and dating back to 1857, while the centre Okhotny Ryad underneath the Manege square in the Moscow centre was opened in 1997. Drawing a bow to current malls, Voytsekhovsky's wide historical approach sharpened the consciousness of the ERES audience for a perspective into the future - the topic of sustainability. Many current problems encountered by existing malls derive from this perspective.

After participating in a lively discussion, the seminar – among the audience representatives from IKEA, Russian consultancies Avers Group and NAI Becar, law firms Hogan & Hartson and Salans, from Eurohypo and from the Russian Guild of Realtors – was followed by a tour around the 12,000 sq.m. TK Gallery Aeroport and other sites in Moscow. The international delegation visited GUM, Okhotny Ryad and TsUM. While GUM comprises about 32,000 sq.m. GLA, the underground mall Okhotny Ryad has 37,000 sq.m. GLA on four levels. Both have the advantages of top locations. While GUM also is a famous brand, Okhotny Ryad has the benefit of direct metro connection and location in a tourist zone.

To complement the retail visits, the international ERES delegation also toured the Kremlin and travelled to two more Moscow real estate projects, which both reflect current topics: refurbishment of old industrial premises and new-build business districts. Dating back to 1867, former textile factory Danilovskaya Manufacture near Varshavskoe Shosse is nowadays a refurbished loft construction with nearly 8,000 sq.m. of office space - beside residential apartments and other uses. Most parts of the red brick buildings, located on a total site of 7.65 hectares, have undergone full reconstruction, while others are to follow. Among tenants are well-known Russian fashion label Kira Plastinina and realtor Knight Frank. Next year, Danilovskaya Manufacture 1867 will see the opening of the first Azimut Hotel in Moscow.

Two relaxed professors after a long day in Moscow, both past presidents of ERES: Matthias Thomas (left), Executive Director of the Real Estate Management Institute at European Business School in the International University, Wiesbaden / Rheingau, and Ramón Sotelo, Honorary Professor for Real Estate Investment Vehicles at Bauhaus University Weimar.

Refurbishment work for this and Krasnaya Roza, another refurbishment of a textile factory dating back to 1875 and nowadays a successful loft concept as well, has been done by Moscow real estate company KR Properties, named after the latter. Both refurbishments conform well to Moscow city development plans, which have set relocation of industrial companies out of the inner city and the new-use of their premises as one of the most important priorities. Not only due to the unpleasant traffic situation, but also because of sustainability in general, such projects are very welcome to Moscow residents.

Another tour amid the ERES seminar was to the joint stock company City, managing company of MIBC Moscow International Business Centre Moscow City - the largest real estate investment project not only in Moscow but all of Russia. It comprises a massive 60 hectares of land under development at Krasnopresnenskaya Embankment, just 4km from the Kremlin. The total floor area of buildings planned for the site amounts to a massive 4.5m sq.m., and it is estimated that up to 500,000 people will live, work, and visit the new complex every day. At completion, Moscow City is planned to incorporate office buildings and corporate residential buildings, hotels, entertainment centres and shopping malls as well as restaurants, cinemas and a concert hall. Today, it has around 20% of total planned commercial area in operation, including 100% of the engineering infrastructure however. The development area is served by two metro stations, while large-scale road construction is in progress. Among the anchor tenants already signed are IBM, Alcoa, GE, KPMG, Citi, Toshiba, Motorola, Raiffeisen, GM, and VTB. The 34-storey Tower 2000 was completed in 2001, and the Naberezhnaya Tower offering 265,600 sq.m., as well as the Northern Tower with a total 139,323 sq.m., followed in 2007. Other skyscrapers already under construction include Imperia Tower which has progressed to the 58th floor already. The ERES delegation was most impressed with the project, enjoying the view over Russia's capital. ■ **pie**

Russian Far Eastern island Sakhalin opens City Mall

Sakhalin Island officials open City Mall. Here (from left to right): Alexander Rezaev, Director of Sberbank Yuzhno-Sakhalinsk; Konstantin Reznitskiy, General Director of Brilliant, Alexander Khoroshavin, Governor of Sakhalin Oblast, Andrey Lobkin, Mayor of Yuzhno-Sakhalinsk, Igor Koptelov, Financial Director of Brilliant.

Just 18 years after the Russian Far Eastern island of Sakhalin, a few kilometres north of Japan in the North Pacific, lost its forbidden military area status, a new City Mall opened its doors in mid November in Yuzhno-Sakhalinsk, the administrative capital.

Comprising 64,000 sq.m. GBA and 42,000 sq.m. GLA for retail, food and entertainment City Mall is the most modern retail space in Russia's Far East. The planning concept was developed by Oleg Voytsekhovskiy, General Director of RCSC Russian Council of Shopping Centres, and branding was done by SCG Strategic Consulting Group, London. Developer and owner of City Mall is the Russian firm Brilliant, with financing partly arranged by one of Russia's largest lenders, Sberbank.

With 900 parking places City Mall is located at the main highway to the airport but close to the city centre. On five levels, it comprises 140 fashion shops, a food supermarket, a consumer electronics supermarket, a department store for sports, a store for children as well as 12 cafes at the food court, a restaurant with a compact Austrian beer plant, a billiard club, a cinema with five halls and a fitness centre as well as an entertainment complex. With a population of around 175,000, Yuzhno-Sakhalinsk is the capital of Sakhalin Oblast (administrative region), and was formerly called Vladimoirovka until 1905, and Toyohara under Japanese control until the end of the Second World War. ■ **pie**

NAI Becar modernises Finlyandsky station

NAI Becar, the Russian branch of NAI Global, has won the tender held by the company Russian Railroads to modernise the Finlyandsky train station in Saint Petersburg and that in nearby Vyborg, the first town east of the Finnish border.

The station management department of RR is also considering further large-scale commercial reconstruction of the Finlyandsky Station including the adjoining areas. It would be planned to coincide with the launch of high-speed trains between Saint Petersburg and Helsinki in July 2010. The tender for the modernisation was held in September and October based on the concept of effective use and development of train stations before 2015.

The modernisation plan aims to boost economic efficiency and profitability as well as improving customer service quality. While designing the concept of station modernisation, NAI Becar used western best-practice. The concept will make the train station a multi-use passenger and transport interchange station. Finlyandsky Station became famous during the Russian revolution when Vladimir Lenin was welcomed in 1917 with jubilation by his Bolshevik followers on arriving in a sealed carriage after a journey that started in Zurich. ■ **pie**

Russia's Mirland narrows 9mth loss, to change CEO

Russian property developer Mirland saw pre-tax losses narrow to $16.4m for the first nine months of 2009, compared to a loss of $37m in the same period a year before. Rental income dropped by 18% to $11m, largely due to a fall in occupancy levels and rents.

Mirland continues to have modest leverage on book, with debt at just 38% of total assets amounting to $226m – up from $151m at end-2008. The increase is mainly attributable to the loan for the Triumph Mall in Saratov and shareholder loans received which enabled the company to continue to develop key portfolio assets. Total assets are valued at $590m, up from $551m at the end of June. Separately, Mirland said it has appointed CFO Roman Rozental to the position of Chief Executive Officer, effective January 2011. He will succeed current CEO Moshe Morag, who is retiring in December 2010.

"While we saw some improvement in macroeconomic indicators in Russia during the reporting period, we are still to see signs of a sustained recovery in the real estate market", said current chairman Nigel Wright. "It is too soon to forecast a thaw in financial market conditions but we remain cautiously optimistic for the long term." During 3Q09 Mirland's main shareholders agreed to extend for one year the terms of their $22m loan and interest accrued, originally due for repayment on 31 March 2010. ■ **pie**