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Retail Developers Begin to Ride Regional Wave

By Lena Smirnova

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Nizhny Novgorod, with its new retail spaces like the Passazh, ranks as highly attractive for regional expansion. **Andrei Makhonin**

Moscow-based retail property developers are showing more interest in building shopping malls in regional capitals as well as next-tier cities with populations of less than 1 million.

That is in stark contrast to attitudes of just a few years ago, when investors listened to proposals to build in not-so-distant cities like Kaluga and Yaroslavl with skepticism.

"Is there life beyond the Moscow Ring Road?" they would ask, said Aleksander Obukhovsky, director for business development at Knight Frank real estate agency.

Knight Frank conducted a study on retail real estate in Russian cities that have a million or more residents and found that interest in the regions is on the rise.

Chelyabinsk, Perm, Krasnoyarsk and Volgograd are newcomers to the scene, but since

developers will go there with prior experience, it is expected that retail properties will emerge quicker than in the "pensioner" cities of Yekaterinburg, Samara, Kazan and Rostov-on-Don, where many shopping malls were built more than 10 years ago, said Olga Yasko, Knight Frank's regional analytics director.

It is not only the large cities that are getting more shopping mall space. Smaller cities with populations under 1 million, such as Ulyanovsk and Tolyatti, are also attracting big developers like Tashir and Finstroy. The developers have gone as far as Barnaul and Surgut, but this is where their enthusiasm runs out. Anything farther is usually considered too remote.

The Far East is one area that has been beyond the scope of interest of established retail developers. However, that is expected to change as new properties open in Khabarovsk, Ulan-Ude, Chita and Vladivostok in the next two to three years.

"Just five years ago, Irkutsk seemed like a place that you couldn't work in professionally," Yasko said. "There was a distinct boundary. You could go up to Yekaterinburg, but not further."

Retailers will have a good pick of newly opened properties for the next one to two years if they're looking to set up in Nizhny Novogord, Ufa, Volgograd and Yekaterinburg, said Anton Korotayev, head of retail consulting at Jones Lang LaSalle.

But for now, there is a dearth of quality retail space in Perm and Krasnoyarsk.

Although it has been named one of Knight Frank's "newcomers," Perm still lags behind in terms of shopping mall space among cities that have a million or more residents. The city will reach only 150 square meters of shopping mall space per 1,000 residents within the next year, as compared with more than 400 square meters per 1,000 residents in Nizhny Novgorod, Jones Lang LaSalle said.

Krasnoyarsk shapes up better in terms of retail real estate. Korotayev expects that it will have about 220 square meters per 1,000 residents within the year.

Kazan is one of the success stories among regional cities. Despite a boom in shopping mall developments in 2005, the city continues to draw in new investments.

The international student sports championship that Kazan will host next summer is one of the reasons for its energetic real estate development, Korotayev said. The government is investing in the city's infrastructure, and this is also helping to draw in investors and retailers.

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