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Moscow's Plans for New Mega-Malls Threatened by Crisis

By Sam Skove

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The current crisis represents a very recent fall from grace for Moscow's mall market.

Plans to build a staggering 900,000 square meters of new mall space in Moscow this year are rapidly fizzling out as Russia's growing economic crisis tightens access to financing and slashes consumer spending, real estate analysts said.

At least 20 percent of planned malls will likely see construction postponed by up to two years, according to Olga Yasko, director of analytics and market research for real estate consultancy Knight Frank.

A report released last week by real estate firm Jones Lang LaSalle (JLL) put that number even higher, predicting that work will stall on as much as 400,000 square meters of the 900,000 initially planned for Moscow shopping centers.

"Everything depends on how many planned projects have already received financing," said

Olesya Dzyuba, deputy head of research at JLL.

Financing — or the lack thereof — has become a troubling issue for Moscow developers. With the Central Bank's interest rate set at 15 percent to help shore up the flagging ruble, Moscow real estate moguls face punishing interest rates of 20 percent or more. Financing this crushing, according to Yasko, "means no financing at all."

Shopping center development plans are also affected by the dip in retailer interest amid the ruble's steep slide of 50 percent to the dollar since last summer, and an expected economic recession of at least 3 percent this year.

Citing the ruble's plunge, Finnish department store chain Stockmann shut down 16 of its fashion outlets in Russia last year, while a host of foreign retailers from Zara to Adidas have rolled back expansion plans.

Still, developers whose construction plans never got off the drawing board may actually be the luckiest. As developers bleed dry of funds while attempting to complete project construction, banks may begin to repossess shopping malls in the second to third quarter of 2015, according to JLL, or else be forced to restructure their loans, which are often denominated in U.S. dollars.

The only winners will be those tenants strong enough to survive until the economy strengthens. Mall rental prices fell 20 percent to hit an average of $400-1,450 per square meter in 2014 with further decreases expected this year, according to JLL.

Malls will further endeavor to sweeten the deal by offering rental rates in rubles, both JLL and Knight Frank predicted.

The current crisis represents a very recent fall from grace for Moscow's mall market. In hopes of making a trip to the mall a family-friendly option for a day's outing, developers in Russia's capital focused on providing every imaginable form of entertainment under one roof.
The massive Avia Park, Europe's largest shopping center, opened last year at 228,500 square meters.

The era of the Moscow mega-mall — mammoth structures bursting with movie theaters, expansive food courts, countless specialty shops and sometimes even ice-skating rinks — appears to be over, analysts say. Knight Frank's Yasko sees smaller, neighborhood-focused malls as dominating development in the coming years.

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