

Commercial Real Estate in Yerevan

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Commercial real estate market in Yerevan is at the initial stage of development, with yet insufficient level of professional management and an increasing demand of quality modern-format retail space.

MAIN INDICATORS

- 28,000 sq.m. semi-modern shopping center stock
- 7,000 sq.m. old-style shopping center stock (2008)
- Per 1,000 inhabitants
 Commercial space: 175 sq.m.
 Shopping center stock: 25 sq.m. (2008)
- 86,000 sq.m. quality retail stock (2008)
- 9,000 retail outlets
 -6,500 shops (2007)
- 1,900 annual commercial real estate deals (2007)
- 17% CAGR of shopping space (2001-2008)

DEVELOPMENT PATH: The construction boom in the country initially extended to the *residential* sector by 2000, with the development wave gradually transferring to the commercial real estate considerably later. The development of the commercial real estate property so far has been driven by the residential real estate, mainly through the formats of *mixed use* projects. Along with the gradual increase of demand for quality commercial space, the purely commercial real estate formats are expected to dominate the new completions.

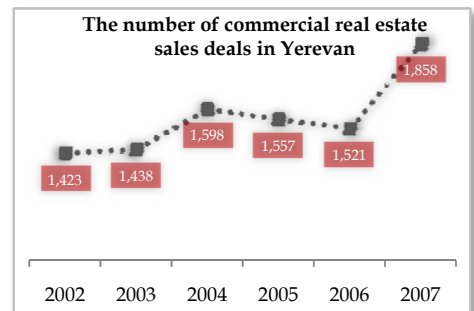
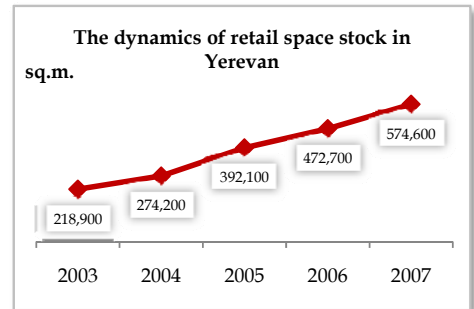
SUPPLY METRICS: The main retail formats in Yerevan are markets/bazaars, street retail and shopping centers.

Yerevan market of commercial real estate has enjoyed an upsurge in supply of shopping space, with compound annual growth rate of about 17% during 2001-2007. The increment in the total stock was generated both by the new supply of shopping centers and the developments in street retail property. The retail market lacks the popular format of “do-it-yourself” (DIY) retail.

The current shopping center stock of Yerevan does not include contemporary formats - well established in CEE and other developing countries. It is limited to the classifications of semi-modern and old style shopping center (inadequate infrastructure and incomplete property development concept) with 28,000 sq.m. GBA (gross built-up area) and 7,000 sq.m. leasable area, accordingly. The existing quality (classified as “B-” and upper) shopping center stock is provided by only two retail centers - Tashir and Yerevan City, namely.

Quality street retail also enjoys impressive expansion paces, especially triggered by the launch of Northern Avenue and other shopping zones of the city. The estimated total area of quality retail stock in Yerevan is about 90,000 sq.m. A few central streets are the major prime locations of the city, hosting the most prestigious international brands and retail operators. The average commercial space per street retail store is estimated to range from 100 to 300 sq.m. The small center of the city (the most prestigious area of Yerevan) enjoys close to zero level of vacancy rates in quality street retail locations.

The commercial property pricing trends are similar to that of residential. The rent dynamics of commercial spaces is mainly shaped by the limited supply of available retail spaces. The sound demand for quality retail area especially defines rapid growth rates of prices. The gap between the highest and the lowest rental rate levels in the city is ranging between 5 to 15-fold difference.



FORMAT TRANSFORMATION: The professional concept of retail property management is yet expected to evolve in the local market with the launch of several planned large-scale projects. The major highly demanded features of shopping centers are expected to become efficient layout, zoning, technical characteristics of the construction (height of ceilings, bay, floor load, modern systems of ventilation and air-conditioning), architectural solutions, external and internal fit-out. A prominent transformation is going to fall on the pool of tenant mix, considered to be very weak in the currently existing shopping centers in Yerevan, mainly integrating small-size unbranded boutiques with limited merchandise mix. The proper diversification of tenant mix and the strong positioning of anchor tenants are expected to ensure considerable internal customer circulation. The current shopping centers also lack integrated market positioning for the center as a whole. The development of the retail space in Yerevan is estimated to take the form of transformation of the currently old fashioned (traditional format) retail outlets to modern formats, including sophisticated shopping centers. The project of “Dalma Orchards” is considered to pioneer in the new-generation-format mall. The emerging trend is towards decentralization of shopping centers from the overloaded city center, by the development of massive suburban areas, such as *Mars* and *Tichina*. A significant pool of pending projects in the Small Center of the city are the redevelopment of former TSUM and establishment of Amiryan Plaza.

CRISIS IMPLICATIONS: The further development of commercial real estate sector is clouded by the impediments of economic crisis worldwide. The short-term development of the market is assumed to suffer the results of household income downfall, which will decrease the demand for quality commercial space in the country. The crisis is expected to especially hit the small scale market players, who lack the competitive advantages of more sophisticated players.

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