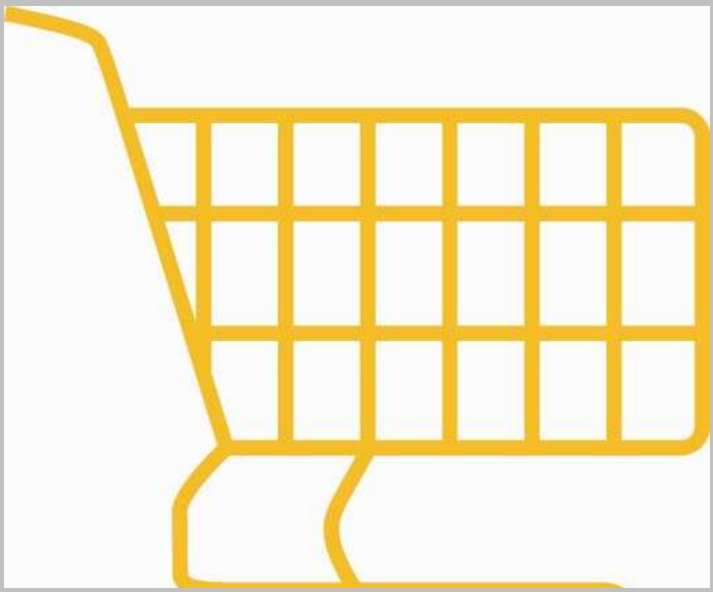

CLASSIFICATION AND OVERVIEW OF SHOPPING CENTRES IN LATVIA

INTRODUCTION

Various overviews of shopping centres in Latvia have been made up to now, but authors of these researches created their own systems and classifications. It is a consistent pattern since individualization of any goods is determined by free trade relationships. It is determined also by lack of a uniting element between owners and managers of retail space in the case.

There is such a uniting element somewhere else in the world, and the abbreviation of its name is **ICSC** (International Council of Shopping Centers). It was established in 1957 in Chicago, USA, and at present it unites more than 57,000 corporative and individual members in more than 80 countries all over the world. The ICSC Europe Conference in 1976 in Paris, when US president Gerald Ford delivered a speech, is considered the official moment of establishing ICSC European Department. The Head Office of ICSC is located in New York, but European activities are coordinated from London. This year the 31st European Conference took place in Copenhagen thus celebrating the 30th anniversary of the first Paris conference.

In 2007, ICSC will celebrate its 50th anniversary. It would be great if at that moment one could speak also about a Council of Latvian Shopping Centres that, like elsewhere in the world (by the way – also in Poland, Hungary, the Czech Republic, Russia and Ukraine, to say nothing of "the old" EU countries) would unite daily competing owners and managers of shopping centres, their developers, investors, traders, lawyers, marketing and advertising experts, architects, territory planners, state and local government officials, researchers and other professionals within this branch; it would unite them with a view to develop and improve the branch on the whole, and making each shopping centre an important part in every-day life of local society. More information about ICSC is available on the home page of the organization: www.icsc.org.

By starting a new overview series, it should be begun with the so far missing uniting elements – with proposal on definition and classification of shopping centres.

Last year ICSC published a research „Towards a Pan-European Shopping Centre Standard" / „A Framework for International Comparison", during elaboration of which ICSC representatives raised questions about classification principles in Latvia. An unedited comment stating lack of a generally accepted classification was the only information about Latvia and the other Baltic States that occurred in the mentioned research. This is the time for eliminating this shortage by using common Europe conclusions offered by the above mentioned research.

According to the data gathered by and suggestions brought forward by ICSC, we propose the following definition of a shopping centre (SC) that is appropriate to Latvian (Baltic) market scale: **SC is a united, specially projected, constructed and managed property with at least 5 separate lease premises, total lease area** (GLA) **at least 1,500 m² and one separate lessee („anchor lessee"), does not take up more than 75% of GLA**.

The classification proposal elaborated reposing on ICSC recommendations is the following:

FORMAT	TYPE OF STRUCTURE		IZNOMĀJAMĀ PLATĪBA (GLA)
TRADITIONAL	VERY LARGE		80,001 m² and more
	LARGE		40,001 – 80,000 m²
	AVERAGE		21,001 – 40,000 m²
	SMALL	CHOICE	3,501 – 21,000 m²
		DAILY	3,501 – 21,000 m²
	GENERAL		1,500 – 3,500 m²
	GROCER'S SUPERMARKET (>75% GLA) WITH ADDITIONAL SERVICE		1,500 m² and more
	DEPARTMENT STORE		1,000 m² and more
SPECIALIZED	SHOPPING PARK	LARGE	21,001 m² and more
		AVERAGE	10,001 – 21,000 m²
		SMALL	1,500 – 10,000 m²
	FACTORY DEALER'S CENTRE		1,500 m² and more
	THEMATIC SHOPPING CENTRE	ENTERTAINMENT TREND	1,500 m² and more
		OTHER SPECIALIZATION	1,500 m² and more

The question about necessity of the category of "very large shopping centre" is disputable. In the mentioned 31st ICSC European Conference, this year in Copenhagen, awards of shopping centres were presented in three categories – small, average and large shopping centres. Significantly that our near neighbours won in the category of „large shopping centres" – Warsaw shopping centre „Arcadia", the impressive total lease area of which reaches 110,000 m². By the way, the 32nd ICSC European Conference will take place in Warsaw in April 2007; it would be advisable to widely represent professionals of the respective Latvian branch there.

It should be taken into account that the scheme proposed by ICSC does not include department stores that are united in a separate association, and they are often principal lessees in larger shopping centres. Yet overview of the local market would seem incomplete without mentioning them as a separate category – just for sake of traditions.

An explanation of the used terms in the classification project is needed in order to make classification more precise and to accept it generally.

Formats

Traditional – a SC where one can usually find shops and services for all everyday needs.

Specialized – a thematically created SC (by focusing on a more narrow group of goods or interests) that usually is a building of an open construction („open-air”) with a constructed and organized outside spatial instead of passages and other common use premises.

Scheme types

Choice – in general, those are SC where clothes, footwear, furniture and household goods, electronics and electrotechnics, toys, luxury articles, gifts, etc., are sold. They are usually situated in a city shopping area, and they may not have a certain anchor lessee.

Daily – such SC sell articles of daily necessity, anchor lessee usually is some grocer's supermarket or hypermarket. Other lessees, in most cases, are shops of household goods, sellers of mass production clothes and footwear, pet-shops and florist's shops, etc.

Shopping park – it usually consists of several „large boxes” – specially constructed specialized supermarkets or hypermarkets. Shopping park is specially projected and constructed as a united whole, it has its own common transport system, car park, orientation panels and service objects.

Factory dealer's centre – a specially constructed and managed complex of separate shops where representatives of manufacturers sell discounted production line, remains, goods of the last season, as well as less demanded goods and models.

Thematic shopping centre – such SC usually consists of several shops that focus on a narrow, but deepened range of goods or themes.

Thematic shopping centre with entertainment and recreation trend – its anchor lessee usually is a multi-room cinema, bowling and/or fitness centre or skating ring, it hosts bars, restaurants, other recreation and entertainment objects and related shops.

Thematic shopping centre of other specialization – it usually focuses on a particular market niche – fancy goods or articles for home furnish. They may be intended for a special category of customers, for example, travellers in an airport or a railway station.

ASSESSMENT OF THE PRESENT SITUATION

A clearly defined classification is a good basis for situation analysis; in real life, however, it is hard to draw a distinction between one and another type of the structure very often. Thus a necessity to amend or change the initial classification may arise in the course of time, yet use of classification lets us to adequately compare shopping centres in Latvia to the situation elsewhere in Europe and in the world.

There is no doubt that classification principles will be changed in 5 to 10 years. SC projection tendencies in Europe is indicative of that when by increasing demand for trade quality and safety, especially in its internet version – it becomes more difficult to attract purchasers to habitual schemes. As lack of time becomes an everyday part, we wish to reach several goals at a time in each situation. Therefore no serious and large-scale project of a new SC can be imagined without a constantly enlarging thematic, entertainment and recreation section.

In Latvia, classification of other type (for instance, Scandinavian model with division in centers of neighbourhood, principal administrative territory, district and regional centres) is made difficult and almost impossible by so far rapid growth of SC – next to the existing and successfully functioning centers, others occur without thinking of customers' grasping areas and, the main thing – without expecting for additional city infrastructure.

For example, shopping area in Krasta Street has several features of a shopping park yet without a common infrastructure and planning (though the city authorities promised their support at creating such an infrastructure). Due to this reason or partly due to it four objects were closed or their specialization and the owners changed at least once in this area.

Just because of lack of a common planning, infrastructure (to a great extent – due to the indifference of the city, or even plain deprecatory attitude of separate official establishments) and lack of management/administration requires a separate observation and classification of each object located in this shopping area. Likewise, one can observe K.Ulmaņa gatve within the span from Lielirbes Street convergence to the city boundaries (in fact, we can even speak about a small shopping park recognized by the most popular element – "Centrex") as well as other places.

Another example: "Alfa" calls itself a shopping park, yet in accordance to this classification it is a large or even a very large traditional shopping centre with a grocer's hypermarket "RIMI" as a principal anchor lessee and several significant lessees separately attracting target customers – "JYSK", "SENUKAI", "Sotka", "Aspo", "Drogas". An essential addition is a purposefully created "food court" or a collection of public catering enterprises obtained after the recent reconstruction. "Alfa" will become a shopping park for the purpose of this classification after opening a separate D.I.Y. complex, but the combination of words "Shopping Park "Alfa"" has already become a stable and unequivocal daily-used notion that hints at the scale of its size even before seeing it.

Use of the word "gallery" or "galleria" in the names of several planned shopping centres is also equivocal. "Patollo", for instance, that in accordance to the classification will be an average or a large traditional shopping centre but it can be considered as a gallery because of its location by emphasizing its belonging to the city centre shopping area between two streets. "Galleria Azzur", at the same time, is an average traditional shopping centre unequivocally, and "galleria" only makes the name euphonious. In its turn, "Galerija Centrs" is a gallery also in the constructive sense by connecting the old and the new buildings and mainly by covered city street. This latest solution that caused criticism of architectural conservatives during erection of the centre is very successful in the context of our climate and may be considered also as assurances of esteem to the first European specially built covered shopping street – St. Hubert and Queen Gallerias in Brussels.

A gallery in the classical understanding (somewhere called also an arcade or a passage) is a small scale shopping section in an object of some other significance (for example, in a large hotel like galleries in "Reval Hotel Latvija" or in the premises of "Hotel de Rome", a conference centre or an airport), or a shopping area connecting, for instance, two important streets where pedestrians are allowed only. A classical example of such a solution is the famous Burlington Arcades in London.

Another explanation of including the name „galleria" in project names can be found, namely, authors of the ideas of all the three mentioned centres and their developers come from Scandinavian countries that have established their own SC council of the Northern countries („The Nordic Council of Shopping Centres") within the ICSC; and one of the categories mentioned in the classification adopted by this council, is "galleria" – a shopping area or section connecting two or several city pedestrian zones.

Having regard of several home countries of the most important SC Latvian market players; there is a big probability that the Scandinavian classification will be accepted for using it in Latvia after the possible discussions about the classification. The mentioned classification is all-embracing yet size parameters merge with conceptual parameters within it thus making comparing local objects to objects somewhere else in Europe and in the world somewhat difficult.

Regardless of „Galleria Azzur" (opened on August 23/24, 2006) constructed by long-term investors as well as planned projects „Riga Plaza" and „Galleria Patollo", a certain temporizing break is taken in building of new shopping centres in Riga. There are two main reasons for that – lack of a clear perspective of the city's infrastructure development even after adoption of city development plan as well as endangered economics of shopping centres: anchor lessees have not changed calculable rent per square meter per month for 3 to 4 years while construction and projecting costs by becoming more and more expensive during the last few years remarkably exceeded the average statistical inflation rate in the country.

It is justified also by projects of new shopping centres being at different stages of elaboration – according to the classification traditional small or average daily centres are often ordered and financed by anchor lessee's mother company or some other related enterprise (current activities of "RIMI Baltic" and "VP Market"/ "NDX Development"). A special case is "Lidl" – long-term swinging in Baltic region and then making a decision still not to start their business unless there is 101% guarantee of instant success and dominance in their segment. Probably, it makes "RIMI Baltija" feel relieved and "VP Market" sink into reverie.

It could be also like the calm before the storm since a common feature unites all the current market leaders – aspirations to strengthen their positions. In the course of time, all the leading market participants have enlarged and changed – "Mols", "Alfa", "Domina", "Centrs" and "Spice"; also "Origo" is searching for additional possibilities within a limited area. An intrigue within the sector of supermarkets and hypermarkets is raised by rumours about plans of "BAUHAUS" as well as the news that the brand "Leader Price" fell from French "Casino" hands into those of British grocer's hypermarket giant „Tesco".

By deepened estimation of functioning shopping centres, there is observed a quite, alarming feature in long-term – several of those shopping centres ground on one and the same grasping area. There is a simple explanation – a very concentrated, uncomplicated city transport infrastructure. Consequences are obvious (and already proved themselves) – visitors „vote by their feet" thus from identical offers situated along one and the same transport flow survives the one that is able to attract and hold visitors' interest best of all. Moreover, "human aspect" or "question of human resources" becomes especially important – how professional and creative administration of a centre will be such results will be there in "the reality show of survival". Just the same importance is given to attraction of interesting lessees and keeping the attracted ones, guessing tendencies of consumption, broad background of human contacts and positive balance between receipts and expenditures. If a centre administration is able to do this then success is comparatively sure. Though widely recognizable name helps a lot yet it does not work either for itself alone or automatically.

A common feature for all, market leaders among them, is marked lack of internationally recognizable lessees up to now. Some famous brands are franchises largely that fight tooth and nail to diversify their assortment and to renew it regularly due to the small scale market.

The turning point would be the moment when "Hennes & Mauritz" (or „H&M"), "Marks & Spencer" (or „Your M&S") will come to Riga –and franchise holder from the Czech Republic is expected not to disenchant by its first project in Latvia in SC "Domina", „C&A". But, like it was mentioned, this could also belie if a franchise holder with preferential assortment offered basing in some other country will open shops in our country.

CLASSIFIED LIST OF SHOPPING CENTRES

The list created on the basis of the viewed classification principles is not final one; it includes most recognizable shopping centres and the ones gathering data of which was not related to overcoming diverse security regimes. The list will be renewed and complemented regularly hoping for responsiveness and initiative of shopping centres themselves that remained unnoticed so far and that are too cautious at present.

[see File of Classification]
http://www.latio.lv/uploaded_files/TC_klasif_tab_EN.xls

Such arrangement of the available data makes possible assessment of retail service and space saturation in separate regions.

Comparatively "empty" Vidzeme region is indicative of number of inhabitants, relatively more easy and fast getting to Riga or alternative shopping centres (for example, from Valka one can reach Tartu sooner than Riga), it indicates also a certain protectionism of local executive power.

There is some other explanation possible – Vidzeme does not have its own regional "city" that could attract sellers and customers. This function is delegated to Riga in a sense.

The classification table does not include rental since the bulk of SC operators and owners consider its rate confidential business information. However, it may be said that for the most significant SC these numbers usually fluctuate between 7.00 and 55.00 euros (without VAT and maintenance costs) per square metre a month. The lowest limit is anchor lessees' due (usually – grocer's supermarkets), but the upper limit – to haut-couture "boutique". The absolute known record (regardless of bank costs for space for cash-machines) is 135.00 euros per square metre a month that advances towards the rate of shopping area in the centre of Milan. Owners of the centres have kept in mind these cases, and unofficial information testifies that "Galerija Centrs" has set rent of 100.00 euros per square metre a month to smaller lessees. If this will become an overall tendency and lessees will be able to overcome this, it will be a good sign for developers of new projects.

In further overviews, we will mark out the changes and complements and try to make a more detailed analysis of separate shopping centres, towns and districts as well as tendencies of the branch.

Your comments and suggestions about both the classification proposed in this overview and possibility of establishing a council or an association of Latvian shopping centres are welcome:

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