

STREET RETAIL

MOSCOW

HI 2022

Experts from Knight Frank distinguish three locations of street retail premises:

- ♦ pedestrian streets with high pedestrian traffic;
- ♦ central retail streets with transport and pedestrian traffic;
- ♦ main avenues.

The report examines in detail the situation in each submarket.





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«Traditionally, the street retail market is the least dependent on foreign policy events. However, H1 2022 showed an immense vacancy on the Kuznetsky Most St as a result of closed stores, including two flagships of international brands. At the same time, we see the prospects for new local brands and companies from partner

countries as an opportunity to make themselves known on the central streets of Moscow. The vehement demand from food&beverage enterprises of various formats, which allows us to predict further positive dynamics in the street retail market, is worth to be noted.»

Key findings

- In H1 2022, the total street retail space amounted to 791.9 thousand sq m, with the average size of premises of 166.4 sq m.
- On average, the vacancy rate in Moscow reached 15.7% at the end of the half-year, by losing 1.0 percentage point for the year, but adding 0.7 percentage points for the half-year. However, there is still large supply on street retail market (about 124.5 thousand sq m) in almost all central corridors of Moscow.
- Statements of foreign brands about suspended operation did not significantly affect the vacancy rate in many of the studied corridors of Moscow, save for Kuznetsky Most, which was traditionally chosen by international operators to host flagship stores. According to the results of H1 2022, the share of vacant space in the street concerned reached 51.2% (+28.3 percentage points per year). In addition, the vacancy growth occurred, among other things, due to the closed business of local market players.
- The largest share of temporarily closed retailers falls on pedestrian streets (11.9% of the total space in the corridor), where a large number of luxury boutiques of foreign brands are placed. In the main central trade streets, the share is only 1.3%; the least space is rented on main avenues – less than 1%.

Supply

In H1 2022, the total street retail space amounted to 791.9 thousand sq m, with the average size of premises of 166.4 sq m.

- in the central pedestrian streets of Moscow – 88.8 thousand sq m;
- in the main central trade streets – 452.0 thousand sq m;
- In the main avenues – 251.1 thousand sq m.

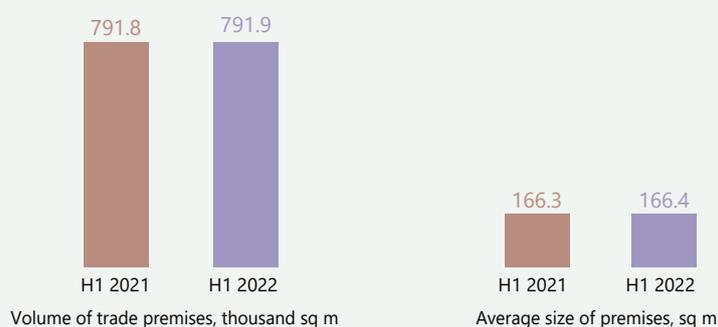
It is worth noting that most of the buildings under reconstruction in the analyzed corridors of Moscow are located in Tverskaya St, buildings 7, 10, 20.

In the structure of space in the corridors analyzed, the average supply in the main central trade streets and main avenues accounts for facilities with a space

of 100-200 sq m - 24.4% and 26.9%, respectively. A large volume of premises with a space from 300 sq m to 500 sq m is on avenues.

In the main central trade streets, the food&beverage sector still leads with a share of 38.3%. But leisure concepts, which are stable (8.2%, unchanged dynamics), are also hosted here, while banks and financial organizations have reduced their presence in the market and continue to switch to online (7.7%, a decrease of 0.7 percentage points y-o-y). It is worth noting that the concentration of fashion operators in comparison with pedestrian streets is significantly lower – only 9.0% (unchanged dynamics for the year).

Street retail supply dynamics, H1 2022 to H1 2021*



*On 14 pedestrian streets (or sections of streets) that are in the greatest demand from retail operators: Arbat, Kuznetsky Most (partially), Nikolskaya, Rozhdestvenka (partially), Kamergersky Pereulok, Stoleshnikov Pereulok, Tretyakovsky proezd, and several areas in Yakimanka and Zamoskvorechye districts.

On 47 central trade corridors located within Garden Ring (including streets of Garden Ring) that are in the greatest demand from retail operators.

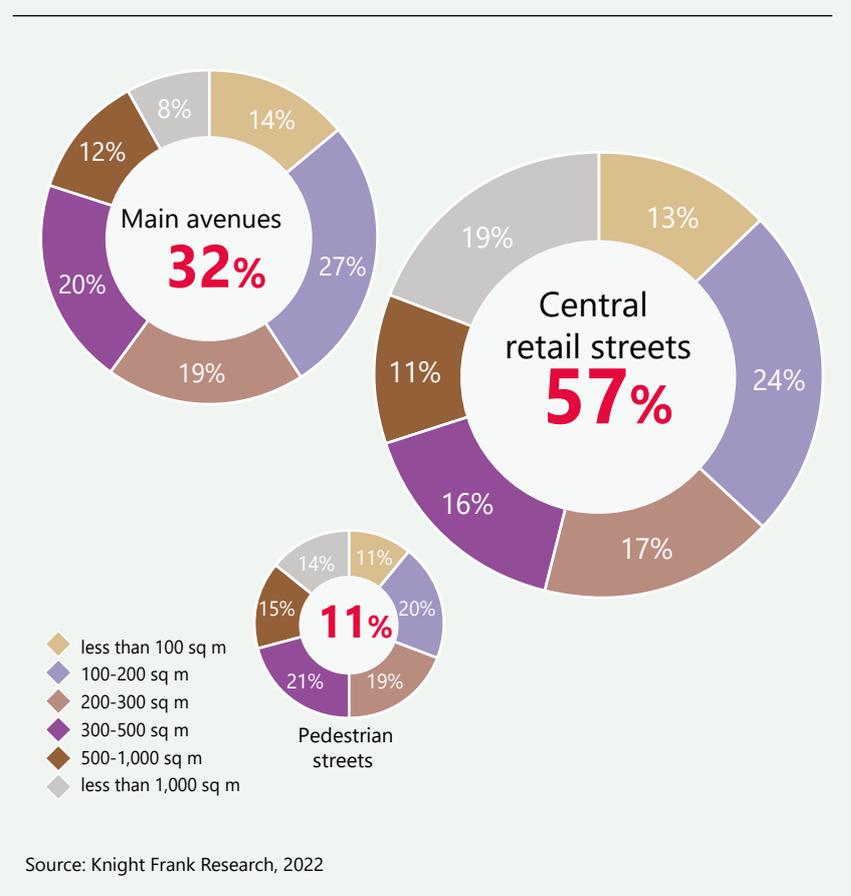
Source: Knight Frank Research, 2022

In pedestrian streets, the biggest share is also occupied by food&beverage operators, which account for 48.3% (+1.3 percentage points per year), fashion retailers taking the second place there - 19.2% (-3.5 percentage points), with gift and souvenir shops closing the top three – 5.3% (+0.4 percentage points y-o-y). The smallest share falls on household goods stores (0.3%, remained unchanged), banks and financial organizations (1.7%, remained unchanged).

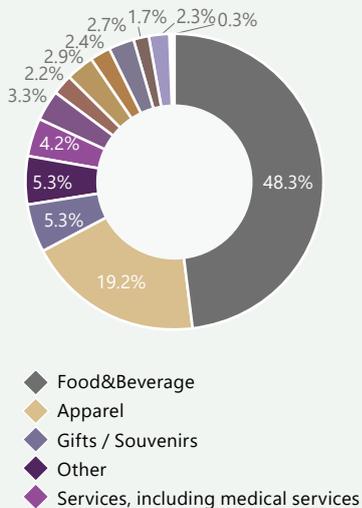
The structure of Moscow main avenues tenants by business profile is very diverse. The leading position in terms of retail space is occupied by household goods stores with a share of 15.4% (- 0.3 percentage points y-o-y), followed by grocery stores (15.3%, a decrease of 0.4 percentage points), and catering businesses with a share of 14.7%. The maximum increase (by 0.4 percentage points) of retail premises over the past year falls on service operators, including medical ones.

In total, 33 new food&beverage establishments were opened on the market within the Garden Ring in H1 2022, which corresponds to the same indicators y-o-y.

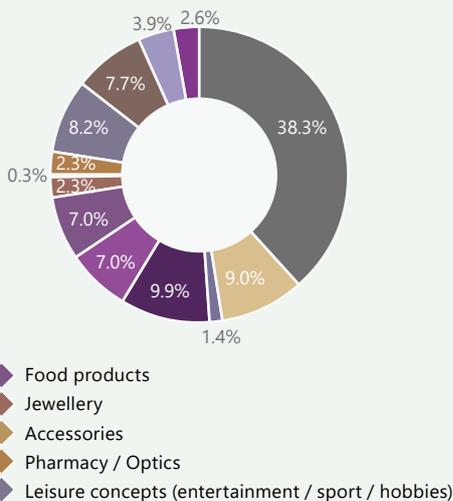
Tenants structure by area, sq. m, H1 2022



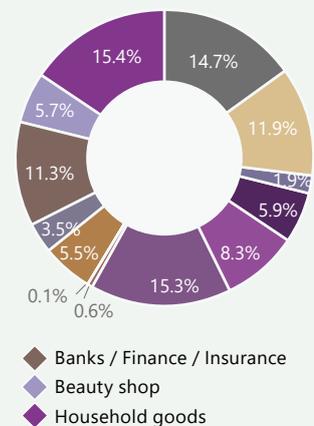
The tenants' breakdown by profiles on the pedestrian streets, H1 2022



The tenants' breakdown by profiles on the transport and pedestrian streets, H1 2022

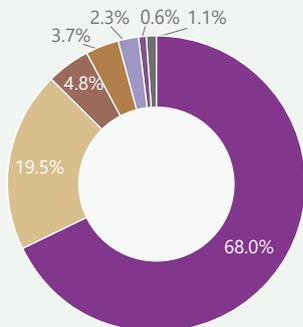


The tenants' breakdown by profiles on the main avenues, H1 2022

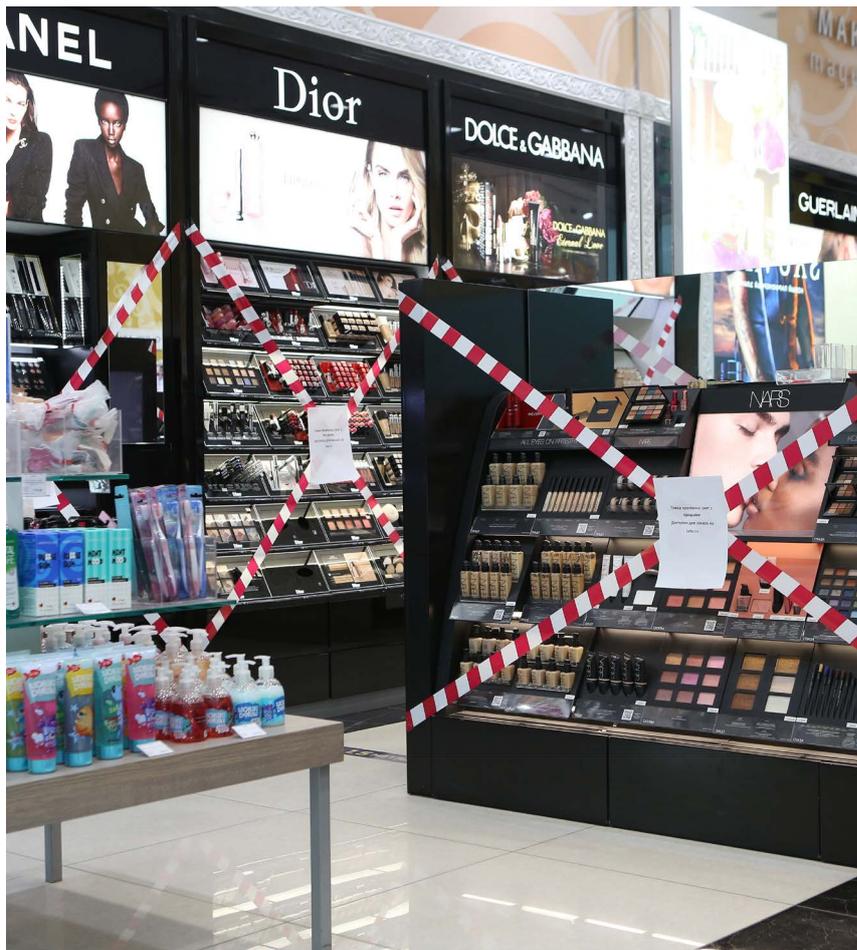


Source: Knight Frank Research, 2022

Structure of foreign tenants suspended their activities in the Russian Federation by sq m, H1 2022



Source: Knight Frank Research, 2022



Brands

Statements of foreign brands about suspended operation did not significantly affect the vacancy rate in many of the studied corridors of Moscow, save for Kuznetsky Most, which was traditionally chosen by international operators to host flagship stores. According to the results of H1 2022, the share of vacant space in the street concerned reached 51.2% (+28.3 percentage points per year). In addition, the vacancy growth occurred, among other things, due to the closed business of local market players.

The largest share of temporarily closed retailers falls on pedestrian streets (11.9% of the total space in the corridor), where a large number of luxury boutiques of foreign brands are placed. In transport and pedestrian streets, the share is only

1.3%; the least space is rented on main avenues – less than 1%.

However, some vacant premises in pedestrian and transport and pedestrian streets have been occupied by new tenants, for example, Brunello Cucinelli boutique on Petrovka St., 16 (instead of Burberry), as well as local players who has expanded their presence on the popular locations of Moscow over the past year and a half, as exemplified by 12 storeez (Stoleshnikov Lane, 13/15), Nikita Efremov (Petrovka St., 15), Kicks Town (Bolshaya Dmitrovka St., 16, bldg. 1), YULIAWAVE (Bolshoy Kozikhinsky Lane, 15), Country Textile (Maly Kozikhinsky Lane, 10, bldg. 1), Nude stories (Petrovka St., 19), Ln Family (Bolshoy Palashevsky Lane, 1/14, bldg. 1), and others.

Vacancy

According to the results of H1 2022, the level of vacant street retail premises in almost all trade corridors of Moscow remains at a high level, however, the foreign policy background did not affect the massive growth of new vacant space, save for Kuznetsky Most St.

On average, H1 2022 shows that the vacancy rate in Moscow was 15.7%, by losing 1.0 percentage point over the year, but adding 0.7 percentage points over six months. However, the indicator has not yet reached the pre-crisis value of 9%.

In H1 2022, an increase of 4.6 percentage points falls on pedestrian streets, where

the vacancy rate reached 17.2% compared to 12.6% at the end of H1 2021. The decrease for the year (H1 2022 vs H1 2021) was recorded in the remaining corridors: for example, in transport and pedestrian streets, the indicator lost 1.1 percentage points, with 2.8 percentage points minus on main avenues. For six months, the maximum vacancy growth was recorded in pedestrian streets (+5.3 percentage points).

Among pedestrian streets, there is a recovery in demand in Arbat, where a significant tourist and leisure traffic is traditionally concentrated, and on Stolesnikov Ln – by the end of the first half of the year, the vacancy rate here decreased to 11.9% and 7.2%, respectively. The vacancy rate grew in Kuznetsky Most, Nikolskaya, Kamergersky Ln streets on the back of, among other things, closed fashion operators and food&beverage establishments, such as Burger King and KFC in Kamergersky Lane, Farsh, Nike, Massimo Dutti, Rendez-Vous in Kuznetsky Most St. In the remaining streets, the vacancy rate has hardly changed compared to the same indicator in 2021.

Among the main central trade corridors of Moscow, a vacancy rate decline falls on the Boulevard Ring (-0.9 p. p.) and the central trade streets (-1.8 p. p.); however, the average vacancy rate for the latter is at a high level by reaching 14.6%. A slight growth of the vacancy rate was recorded within the Garden Ring (+0.1 percentage points).

Dynamics of vacancy in street retail, H1 2022 compared with H1 2021

| | Share of vacant spaces, % | | Dynamics |
|--|---------------------------|---------|-------------|
| | H1 2021 | H1 2022 | |
| Main central trade directions | | | |
| Boulevard Ring | 14.1% | 13.2% | -0,9 p. p. |
| Garden Ring | 14.2% | 14.3% | 0,1 p. p. |
| Central trade streets | 16.3% | 14.6% | -1,8 p. p. |
| Main central trade corridors | | | |
| Bolshaya Dmitrovka St. | 9.2% | 10.1% | 0,9 p. p. |
| Bolshaya Lubyanka St. | 23.7% | 18.6% | -5,1 p. p. |
| Bolshaya Nikitskaya St. | 44.7% | 35.9% | -8,8 p. p. |
| Bolshaya Ordynka St. | 27.3% | 35.4% | 8,1 p. p. |
| Bolshaya Yakimanka St. | 21.7% | 10.7% | -11,0 p. p. |
| Krasnaya Presnya St. | 5.9% | 6.9% | 1,0 p. p. |
| Malaya Bronnaya St. | 9.0% | 5.0% | -4,0 p. p. |
| Maroseyka St. | 10.6% | 10.9% | 0,3 p. p. |
| Myasnitskaya St. | 20.9% | 20.6% | -0,3 p. p. |
| Neglinnaya St. | 11.8% | 10.7% | -1,1 p. p. |
| Novokuznetskaya St. | 4.1% | 4.6% | 0,4 p. p. |
| Novy Arbat St. | 10.9% | 5.5% | -5,4 p. p. |
| Ostozhenka St. | 41.5% | 38.3% | -3,2 p. p. |
| Petrovka St. | 15.5% | 10.3% | -5,1 p. p. |
| Pokrovka St. | 14.1% | 12.4% | -1,7 p. p. |
| Pyatnitskaya St. | 9.5% | 9.1% | -0,3 p. p. |
| Tverskaya St. | 21.8% | 19.3% | -2,4 p. p. |
| Tverskaya-Yamskaya St. | 25.7% | 28.3% | 2,7 p. p. |
| Main pedestrian shopping directions | | | |
| Arbat St. | 13.6% | 11.9% | -1,7 p. p. |
| B. Tolmachevsky Lane | 0.0% | 0.0% | 0,0 p. p. |
| Kamergersky Lane | 13.7% | 22.0% | 8,3 p. p. |
| Klimentovskiy St. | 0.0% | 0.0% | 0,0 p. p. |
| Kuznetsky Most St. | 22.9% | 51.2% | 28,3 p. p. |
| Lavrushinsky St. | 78.5% | 57.1% | -21,5 p. p. |
| Nikolskaya St. | 9.0% | 13.3% | 4,3 p. p. |
| Ordynsky Blind alley | 39.4% | 17.4% | -21,9 p. p. |
| Pyatnitsky Lane | 1.0% | 4.2% | 3,1 p. p. |
| Rozhdestvenka St. | 9.8% | 9.8% | 0,0 p. p. |
| Sadovnicheskyy Dr. | 0.0% | 7.8% | 7,8 p. p. |
| Stolesnikov Lane | 8.8% | 7.2% | -1,6 p. p. |
| Tverskaya Dr. | 50.0% | 50.0% | 0,0 p. p. |
| Tretyakov Dr. | 0.0% | 0.0% | 0,0 p. p. |
| Main avenues | | | |
| Kutuzovskiy Av. | 29.4% | 26.1% | -3,2 p. p. |
| Leninsky Av. | 16.9% | 15.9% | -1,0 p. p. |
| Mira Av. | 21.1% | 15.2% | -5,9 p. p. |
| Leningradskiy Av. | 17.2% | 16.1% | -1,1 p. p. |
| Komsomolskiy Av. | 20.5% | 15.1% | -5,4 p. p. |

Source: Knight Frank Research, 2022

Dynamics of vacancy in street retail, H1 2022 compared with H1 2021

| Indicator | H1 2021 | H2 2021 | H1 2022 | Dynamics | |
|------------------------------|---------|---------|---------|-----------|------------|
| | | | | | Year |
| Main roads | 20.5% | 17.6% | 17.7% | 0.1 p. p. | -2.8 p. p. |
| Transport-pedestrian streets | 15.4% | 14.2% | 14.3% | 0.1 p. p. | -1.1 p. p. |
| Pedestrian streets | 12.6% | 11.9% | 17.2% | 5.3 p. p. | 4.6 p. p. |

Source: Knight Frank Research, 2022

Lease rates

As for H1 2022, the highest asked rental rates fall on the premises in the Kuznetsky Most St., in the vicinity of the Patriarchs Ponds and in Stoleshnikov Ln, as well as in Tverskaya and Nikolskaya streets near the underground stations.

The minimum rate in H1 2022 equaled to 20,000 rubles/sq m per year on the Garden Ring (=), in Pyatnitskaya St.

(-20% compared to the same period in 2021) and on Mira Avenue (-33% compared to the same period in 2021). The maximum rate is 271,000 rubles/sq m in Nikolskaya St.

A decrease in the lower limit of the rental rate was noted in half of the key trade corridors of Moscow, i.e. by 10-45%, depending on the street; in four

analyzed streets, the rental rate remained unchanged y-o-y.

A jump in the upper limit of the rental rate was recorded on Kamergersky Ln, in Myasnitskaya St., Kutuzovsky Av., and in the vicinity of the Patriarch's Ponds on the back of a new supply to the market.

Dynamics of the rates H1 2022 compared with H1 2021*

| Name of street or trade area | Rental rate (thousand rubles/sq. m/year), w/o VAT | | | | | |
|---|---|-----|---------|-------|---|---|
| | H1 2021 | | H1 2022 | | Change | |
| | min | max | min | max | lower limit compared to previous year, p.p. | upper limit compared to previous year, p.p. |
| Nikolskaya St. | 86 | 230 | 70 | 271** | -19% | 18% |
| Kuznetsky Bridge St. | 60 | 235 | 50 | 255 | -17% | 9% |
| Tverskaya St. (from Okhotny Ryad subway station to Pushkinskaya subway station) | 40 | 215 | 40 | 240** | 0% | 12% |
| Patriarch's Ponds | 85 | 150 | 65 | 210 | -24% | 40% |
| Stoleshnikov Lane | 101 | 160 | 101 | 190 | 0% | 19% |
| Kamergersky Lane | 60 | 80 | 33 | 165 | -45% | 106% |
| Pyatnitskaya St. | 25 | 150 | 20 | 160 | -20% | 7% |
| Arbat St. | 50 | 180 | 40 | 155 | -20% | -14% |
| Mira Av. | 30 | 130 | 20 | 145 | -33% | 12% |
| Myasnitskaya St. | 50 | 100 | 45 | 145 | -10% | 45% |
| Petrovka St. | 40 | 120 | 45 | 120 | 13% | 0% |
| Novy Arbat St. | 45 | 90 | 45 | 120 | 0% | 33% |
| Garden Ring | 20 | 90 | 20 | 95 | 0% | 6% |
| Kutuzovsky Av. | 30 | 50 | 25 | 70 | -17% | 40% |

* Data are ranked by upper limit of H1 2022

** The premises are located near the underground station.

Source: Knight Frank Research, 2022

Forecast

We do not expect any new high-sounding removal of international players from the street retail market in the near future. According to available information, many of the brands are talking about prolongation of contracts, but for a shorter period so far.

In many cases, closures are temporary due to the foreign policy situation and logistical difficulties. In general, now all brands without exception, including luxury operators, consider new supply options and wait for the right moment to return.

Vacant premises in pedestrian streets, where foreign brands were previously located, are already being considered by other tenants, including local brands and new companies from friendly countries.

By the year-end, the following factors will have a key impact on the current and future development of retailers in Moscow's trade directions:

- ♦ Changed consumer behavior.
- ♦ Declined foreign tourist flow compared to the pre-crisis years.
- ♦ Changed vacancy rate due to possible suspension of businesses of international brands.
- ♦ Reduced average space of premises.
- ♦ Launching of new brands into the market: local and foreign brands, including the resale of businesses of players announced their suspension.
- ♦ Legalization of parallel imports.
- ♦ Increased costs for finishing of premises.

Despite the existing external factors affecting the development of the street retail segment, the demand for premises with finishing and equipment in the market remains. Liquid facilities in popular locations with heavy pedestrian traffic have not undergone significant changes in rental rates and remain in demand from tenants, including because the street retail market is less dependent on foreign players, unlike shopping malls.

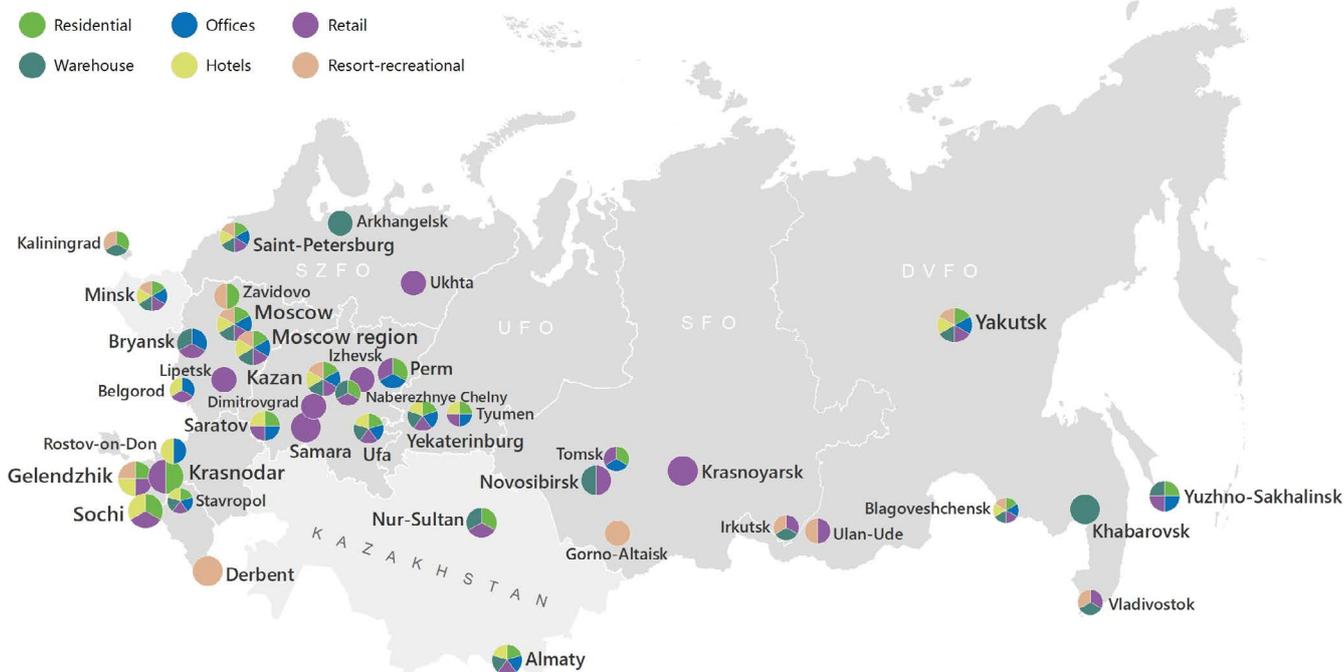
As one of the promising trends in the market, we can emphasize the demand for premises in Stoleshnikov Lane, Petrovka, Bolshaya Dmitrovka and in the vicinity of the Patriarch's Ponds, for example, from local Russian designers and brands with exclusive goods.



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