STREET RETAIL

MOSCOW

2022

Experts from NF Group 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.

Irina Kozina
Head of Street Retail
NF Group

«At the beginning of 2022, the players were ready for an active recovery of the street retail market, which began at the end of 2021 after the pandemic, but the geopolitical situation has made its own adjustments. Despite the withdrawal of international retailers from the market due to the current foreign policy situation, we see the prospect for new and already present brands and companies from partner countries on the market as an opportunity to make themselves known on the central streets of Moscow, as evidenced by the number of new local players in key locations in 2022. The vehement demand from catering enterprises of various formats, which allows us to predict further positive dynamics in the street retail market, is worth to be noted.»

Key conclusions

- In H2 2022, the total street retail space amounted to 792,000 sq m, an average size of premises – 166,1 sq m.
- The average vacancy rate in Moscow reached 14.8% at the end of the year, by loosing 0.3 percentage points for the year and 0.9 percentage points for the half-year. However, there is still large supply on street retail market (about 117,100 sq m) in almost all trade corridors of Moscow.
- According to the results of 2022, an increase in the vacancy rate was recorded only on pedestrian streets (+6.8 percentage points per year). On main avenues of the city and on transport and pedestrian streets, the indicator decreased by 2.4 percentage points and 0.5 percentage points, respectively.
- Statements about suspended operation of foreign brands has no material effect on the vacancy rate in many of the studied corridors of Moscow, save for Kuznetsky Most Street, which was traditionally chosen by international operators to host flagship stores. The increase in the indicator was also observed on Tverskaya Street due to the closure of H&M flagship project. According to the results of H2 2022, the share of vacant space in Kuznetsky Most Street was 48.6% (+29.3 percentage points for the year), in Tverskaya Street – 26.1% (+6.7 percentage points for the year). In addition, the vacancy growth occurred, among other things, due to the closed business of local market players.
- 36 international brands operating in the street retail format have restricted their activities* in Russia, of which 56% have temporarily ceased operations in Russia; 22% have been rebranded; a total of 22% have left Russia or closed their street retail formats. Most of the brands restricted their activities operate in apparel/accessories sector – 31% (most often the luxury price segment), the smallest part falls on food&beverage and household goods: 6% and 3%, respectively.

Supply

In H2 2022, the total street retail space amounted to 792,000 sq m, an average size of premises – 166,1 sq m.

- in the central pedestrian streets of Moscow – 88,800 sq m;
- in the transport and pedestrian streets – 452,000 sq m;
- in the main avenues – 251,200 sq m.

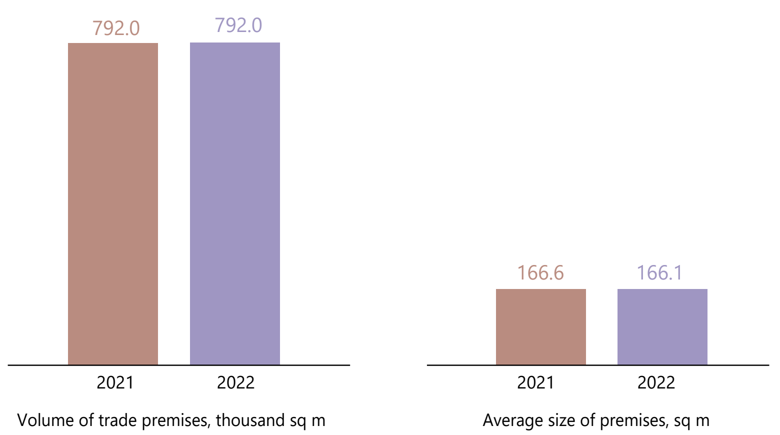
It is worth noting that most of the buildings under reconstruction in the analyzed corridors of Moscow are located in Tverskaya Street, buildings 7, 10, 20.

In the structure of space in the corridors analyzed, the average supply in transport and pedestrian streets and main avenues accounts for premises with a space of 100–200 sq m (24% and 27%, respectively). However, most of the rented premises with an area of 500 sq m or more are on avenues, whereas premises up to 200 sq m are in demand with tenants on pedestrian streets and transport and pedestrian streets.

In the transport and pedestrian streets, the food&beverage sector traditionally leads with a share of 39.2% (+0.8 percentage points). The top 3 leaders in terms of occupied space also include apparel tenants - 8.7% (-0.4 percentage points for the year, the decline was mainly due to the closure of a large store of the Swedish brand H&M in Tverskaya Street) and leisure concepts – 8.0% (-0.2 percentage points for the year). It is worth noting that banks and financial organizations continue to gradually reduce their presence in the market and concentrate on online (7.2%: a decrease of 0.6 percentage points over the year).

On pedestrian streets, most of the rented premises are occupied by food&beverage

Street retail supply dynamics, 2022 to 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 transport and pedestrian corridors located within Garden Ring (including streets of Garden Ring) that are in the greatest demand from retail operators.

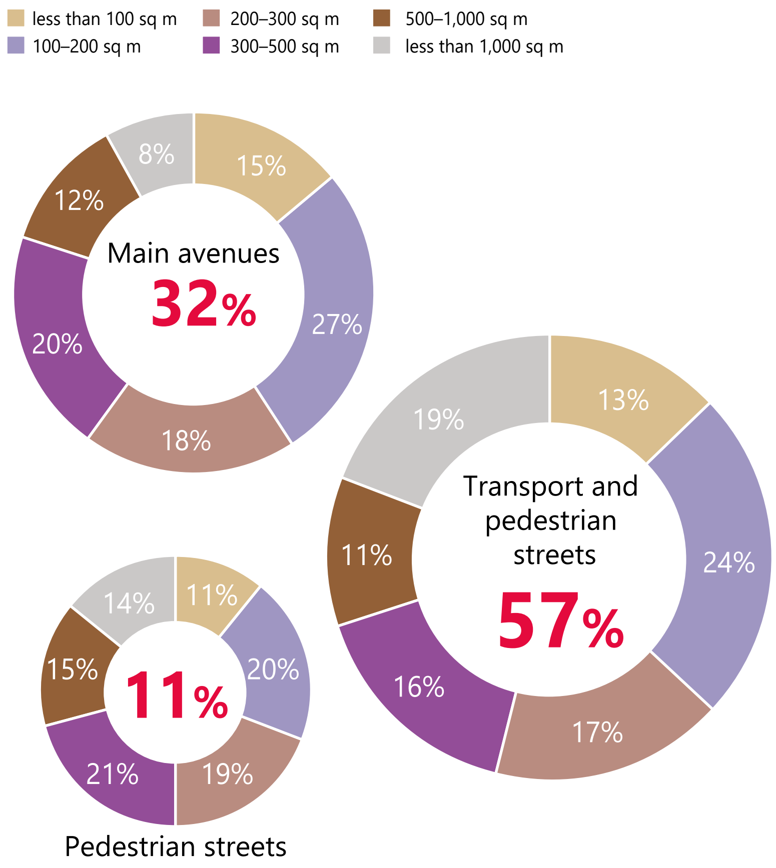
Source: NF Group Research, 2023

* Companies suspended commercial/investment activities/supplies in Russia

operators, which account for 47.4% (dynamics unchanged), the second major tenant profile is fashion retailers - 20.7% (-1.9 percentage points for the year, but the indicator added 1.0 percentage point for 6 months due to the active expansion of local brands in the market). Gift and souvenir shops takes the 3rd place of the top three – 5.1% (+0.4 percentage points for the year). The smallest share falls on household goods stores (0.3%, unchanged), banks and financial organizations – 1.4% (-0.1 percentage points for the year), which also gradually optimize their premises in the center of Moscow.

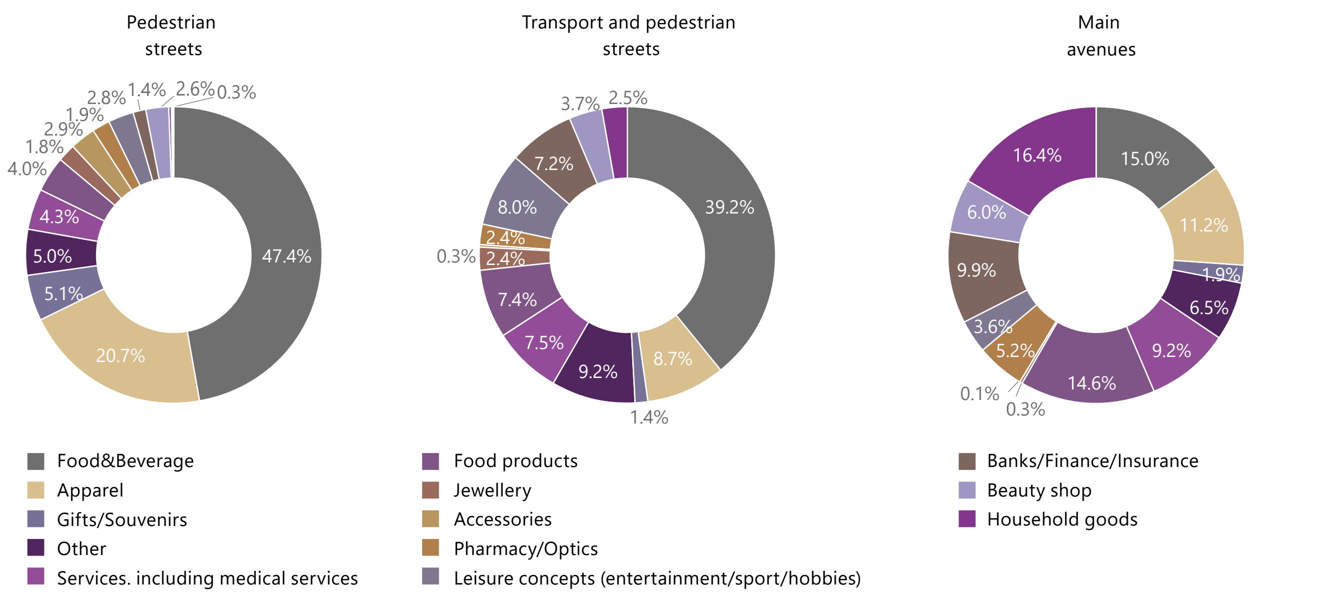
The structure of Moscow avenue tenants by business profile is very diverse. Here, the leading position in terms of retail space is occupied by household goods stores with a share of 16.4% (+0.9 percentage points for the year) and their presence is increasing every year, followed by food&beverage (15.0%, a decrease of 0.2 percentage points for the year), which shifted grocery retailers to 3rd place – 14.6% (-0.5 percentage points for the year). The maximum annual growth (by 1.0 percentage point) of retail premises falls on service operators, including medical ones: their share is 9.2% at the end of the period.

Tenants structure by area, sq m, H2 2022



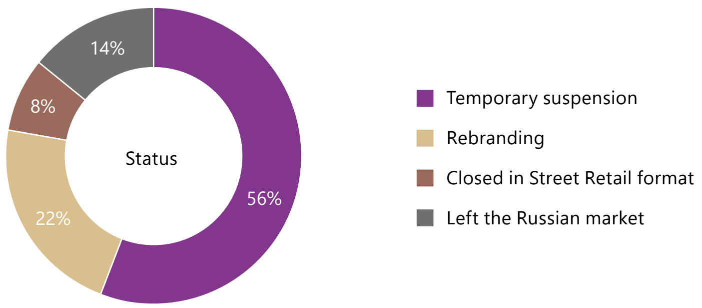
Source: NF Group Research, 2023

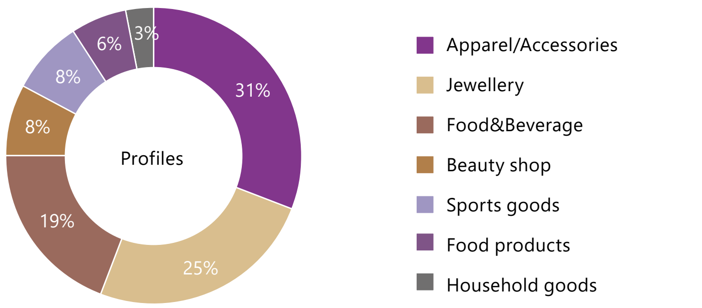
The tenants' breakdown by profiles, 2022



Source: NF Group Research, 2023

The structure of brands limited their activities in Russia by number in 2022, %





Source: NF Group Research, 2023

Brands

Statements about suspended operation of foreign brands has no material effect on the vacancy rate in many of the studied corridors of Moscow, save for Kuznetsky Most Street, which was traditionally chosen by international operators to host flagship stores. The increase in the indicator was also observed on Tverskaya Street due to the closure of H&M flagship project. According to the results of H2 2022, the share of vacant space in Kuznetsky Most Street was 48.6% (+29.3 percentage points for the year), in Tverskaya Street – 26.1% (+6.7 percentage points for the year). In addition, the vacancy growth occurred, among other things, due to the closed business of local market players.

36 international brands operating in the street retail format have restricted their activities* in Russia, of which 56% have temporarily ceased operations in Russia; 22% have been rebranded; a total of 22% have left Russia or closed their street retail formats.

Most of the brands restricted their activities operate in apparel/accessories sector – 31% (most often the luxury price segment), the smallest part falls on food&Beverage and household goods: 6% and 3%, respectively.

Brands from the USA and France occupy a large part in the list of those restricted their operations, and they account for 50% in total.

It is worth noting that the vacant premises of some retailers have already been replaced by other tenants: the democratic meat restaurant The Bul» was opened on the site of the Hard Rock Cafe in Arbat Street, and the Belarusian fashion brand ZNWR will be opened on the premise of Laduree in Malaya Bronnaya Street.

Due to withdrawal of international fashion brands from Russian market, domestic designers have received new opportunities for development in the offline segment – in particular, in the center of Moscow. They tend to occupy premises in central locations to open flagship projects – this contributes to the status increase, which confirms the experience of international brands in global capitals. At the same time, companies that have been operating in St. Petersburg and other major cities of Russia for a long time enter the Moscow market. This indicates the prospects for the development of the local fashion retail segment, which allows expecting an increase in the activity of players and the number of new orders for suitable premises for brands.

By the end of 2022, 18 stores of local players and 1 brand from the CIS country (Belarus) opened in the Moscow street retail market. This is twice as much as in 2021, when the same indicator covered only eight local brands.

Among the retail stores opened on the Moscow market in 2022 (including retail boutiques, multi-brand stores and concept stores), 84% specialize in clothing and footwear, 11% fall on accessories and 5% on underwear. More than 50% of them belong to the middle+ price segment.

It is noteworthy that in the central trade corridor of Moscow, retail boutiques were also opened, where both Russian brands and foreign goods were presented. Previously, stores of similar format were located exclusively on online and multi-brand sites.

Many local brands are Moscow-based by origin, but companies from Yekaterinburg, Kazan and Kostroma are noted among them as well. In addition, ZNWR - the Belarusian fashion brand has entered the street retail market in Moscow.

* Companies suspended commercial/investment activities/supplies in Russia

Local operators opened in the street retail format in 2022

№	Name	Address	Profile	Price segment	City
1	YULIAWAVE	15, Bolshoy Kozikhinsky Lane	Apparel	Premium	Moscow
2	ROZIE CORSETS	10, Malaya Nikitskaya St.	Apparel	Premium	Moscow
3	Precise	15B, Malaya Bronnaya St.	Apparel	Premium	Moscow
4	Petrovka’15*	15, Petrovka St.	Apparel	Middle+	Moscow
5	OSKELLY**	14, Stoleshnikov Lane	Apparel/Accessories	Middle+, Premium	Moscow
6	Nude Story	19, Petrovka St.	Apparel	Middle+	Kazan
7	NIKITA EFREMOV*	15, Petrovka St.	Apparel	Middle+, Premium	Moscow
8	MILAMARSEL	8 bldg. 1, Bolshoy Patriarchal Lane	Apparel	Premium	Moscow
9	LN Family	19 bldg. 1, Petrovka St.	Apparel	Middle+	Moscow
10	Kicks Town*	16 bldg. 1, Bolshaya Dmitrovka St.	Apparel	Middle+, Premium	Moscow
11	Harry Cooper	2/1 bldg. 1, Pokrovka St.	Accessories	Middle+	Moscow
12	FASHION REBELS	15, Petrovka St.	Apparel	Middle+	Moscow
13	(ex)bags**	12, Maly Kozikhinsky Lane	Accessories	Premium	Moscow
14	DressByStesha	15, Bolshaya Dmitrovka St.	Apparel	Middle+	Moscow
15	Country Textile	15, Tverskaya St.	Apparel	Middle+	Kostroma
16	12Storeez	13/15, Stoleshnikov Lane	Apparel	Middle+ -> Premium	Ekaterinburg
17	LAVARICE	27/14, Malaya Bronnaya St.	Underwear	Middle+	Moscow
18	Planta Rosa	19, Malaya Ordynka	Apparel	Middle+	Moscow
19	ZNWR***	27/14, Malaya Bronnaya St.	Apparel	Middle+	Bobruisk/Minsk (Belarus)

* Concept store of branded goods/local designers

** Retail boutique of branded goods

*** Opening soon

Source: NF Group Research, 2023

Food&Beverage

Food&beverage, as one of the leaders in terms of occupied space, has shown good results under current conditions. The number of new openings in the studied corridors of Moscow in the street retail format remains at a high level, as the indicator for 2022 is only 11% lower compared to 2021. In general, the value turned out to be 6% higher than the pandemic 2020. At the end of the year, the number of closured projects increased by only 5% compared to the same period in 2021, but decreased by 29% compared to 2020, which indicates the desire of catering operators to develop new gastro projects.

Despite difficulties early in 2022 for the catering sector on the back of foreign policy, supply disruptions and increased prices for purchased products, a large number of key launches was during this period. The rapid restructuring of restaurateurs, including through rebranding, updating the menu and revising the concept and suppliers, helped the segment to continue its active development – 220 new projects were opened in the street retail format during the year – and surpass the indicators of 2020.

Closures this year were often due to the obsolescence of formats or ill-conceived concepts, as successful and bright projects are least closed. In addition, not everyone was able to adapt to the new conditions, including due to the menu restructuring, the purchase of raw materials; many newcomers to business (startups) also experienced difficulties with renting due to an incorrectly built business strategy. Such establishments include small bistros, take away catering format, small cafes and coffee shops. Food&beverage formats aimed at temporary trends – the so-called pop-up projects, which initially provide for a short-term operation, also develop on the market. At that, this trend has been expanding in the Moscow street retail market over the past few years. There are many reasons for opening: people like the surprise effect – it stimulates a surge of temporary excitement, which they need to take advantage of here and now. Pop-up projects can present their concepts to visitors, test a new design or menu.

The most stable and high-quality projects in Moscow for the current year are those of luxury and premium price segments. Premium restaurants have their own target audience, and most often they include regular customers who are not very dependent on external factors. In such restaurants, the audience, which was formed once, can be loyal for several years, with rare change of formats and concepts. For example, some time ago, most of such restaurants had to adjust the menu due to sanctions on some products, and some of them even focused on dishes from local products. The rotation is also significantly lower than that of network operators with a medium/medium+ price segment, since the competition here is much lower.

Vacancy

According to the results of 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 Street and Tverskaya Street.

On average, H2 2022 shows that the vacancy rate in Moscow was 14.8%, by loosing 0.3 percentage points over the year and 0.9 percentage points over six months. However, the indicator has not yet reached the pre-crisis value of 9%.

In 2022, an increase of 6.8 percentage points falls on pedestrian streets, where the vacancy rate reached 18.7% compared to 11.9% at the end of 2021. The decrease for the year was recorded in the remaining corridors: for example, in transport and pedestrian streets, the indicator lost 0.5 percentage points,

Dynamics of vacancy in street retail, 2022 compared with 2021

	Share of vacant spaces, %		Dynamics
	2021	2022	
Main transport and pedestrian corridors			
Boulevard Ring	13.2%	10.3%	-2.8 p. p.
Garden Ring	13.7%	13.8%	0.1 p. p.
Central trade corridors	14.9%	14.6%	-0.3 p. p.
Main central trade corridors			
Bolshaya Dmitrovka St.	15,7%	18,1%	2,4 p. p.
Bolshaya Lubyanka St.	18,6%	22,8%	4,3 p. p.
Bolshaya Nikitskaya St.	35,9%	28,3%	-7,5 p. p.
Bolshaya Ordynka St.	35,4%	35,4%	0,0 p. p.
Bolshaya Yakimanka St.	14,4%	9,8%	-4,6 p. p.
Krasnaya Presnya St.	6,9%	8,8%	2,0 p. p.
Malaya Bronnaya St.	2,0%	6,6%	4,6 p. p.
Maroseyka St.	11,0%	8,5%	-2,5 p. p.
Myasnitskaya St.	20,6%	19,1%	-1,5 p. p.
Neglinnaya St.	10,7%	9,3%	-1,4 p. p.
Novokuznetskaya St.	4,6%	4,9%	0,3 p. p.
Novy Arbat St.	5,5%	6,2%	0,7 p. p.
Ostozhenka St.	38,3%	29,2%	-9,0 p. p.
Petrovka St.	10,3%	8,1%	-2,2 p. p.
Pokrovka St.	12,4%	10,2%	-2,3 p. p.
Pyatnitskaya St.	9,1%	8,7%	-0,5 p. p.
Tverskaya St.	19,3%	26,1%	6,7 p. p.
Tverskaya-Yamskaya St.	28,3%	21,6%	-6,8 p. p.
Main pedestrian corridors			
Arbat St.	11.1%	12.3%	1.2 p. p.
B. Tolmachevsky Lane	0.0%	34.9%	34.9 p. p.
Kamergersky Lane	24.4%	19.6%	-4.8 p. p.
Klimentovsky St.	0.0%	0.0%	0.0 p. p.
Kuznetsky Most St.	19.3%	48.6%	29.3 p. p.
Lavrushinsky St.	57.1%	37.6%	-19.5 p. p.
Nikolskaya St.	10.8%	16.6%	5.7 p. p.
Ordynsky Blind alley	22.6%	9.7%	-12.9 p. p.
Pyatnitsky Lane	0.0%	0.0%	0.0 p. p.
Rozhdestvenka St.	9.8%	9.8%	0.0 p. p.
Sadovnichesky Dr.	7.8%	59.9%	52.1 p. p.
Stoleshnikov Lane	6.8%	4.5%	-2.2 p. p.
Tverskaya Dr.	50.0%	50.0%	0.0 p. p.
Tretyakov Dr.	0.0%	0.0%	0.0 p. p.
Main avenues			
Kutuzovsky Av.	26.7%	25.6%	-1,1 p. p.
Leninsky Av.	15.6%	13.9%	-1,8 p. p.
Mira Av.	15.0%	9.7%	-5,3 p. p.
Leningradsky Av.	15.0%	14.6%	-0,4 p. p.
Komsomolsky Av.	15.9%	10.7%	-5,2 p. p.

Source: NF Group Research, 2023

Dynamics of vacancy in street retail, 2022 compared with 2021

Indicator	H2 2021	H1 2022	H2 2022	Dynamics	
				Half-year	Year
Main avenues	17.6%	17.8%	15.2%	-2,6 p. p.	-2,4 p. p.
Transport-pedestrian streets	14.3%	14.4%	13.8%	-0,6 p. p.	-0,5 p. p.
Pedestrian streets	11.9%	16.8%	18.7%	2,0 p. p.	6,8 p. p.

Source: NF Group Research, 2023

Dynamics of the rates 2022 compared with 2021*

Name of street or trade area	Rental rate (thousand rubles/sq. m/year), w/o VAT					
	2021		2022			
	min	max	min	max	lower limit compared to previous year, p. p.	upper limit compared to previous year, p. p.
Kuznetsky Most St.	60	210	40	255	-33%	21%
Nikolskaya St.	70	230	70	236	0%	3%
Patriarch's Ponds	70	150	40	215	-43%	43%
Stoleshnikov Lane	120	210	101**	190**	-16%	-10%
Pyatnitskaya St.	25	160	25	160	0%	0%
Tverskaya St. (from Okhotny Ryad subway station to Pushkinskaya subway	50	220	40	150	-20%	-32%
Novy Arbat St.	45	110	50	150	11%	36%
Mira Av.	30	145	20	120	-33%	-17%
Arbat St.	55	160	40	110	-27%	-31%
Petrovka St.	45	110	60	110	33%	0%
Myasnitskaya St.	45	100	35	100	-22%	0%
Garden Ring	25	95	20	95	-20%	0%
Kamergersky Lane	60	80	60**	80**	0%	0%
Kutuzovsky Av.	35	70	20	70	-43%	0%

* Data are ranked by upper limit of 2022

** Rental rates in these locations are similar to the level of H1 2022 due to the zero-vacancy rate

Source: NF Group Research, 2023

with 2.4 percentage points minus on main avenues. For 6 months, the maximum vacancy growth was recorded only in pedestrian streets (+2.0 percentage points).

Among pedestrian streets, there is a recovery in demand in Stoleshnikov Lane: by the end of the year, the vacancy rate decreased by 2.2 percentage points and amounted to 4.5%; at Rozhdestvenka, the indicator remained unchanged (9.8%). For the year, the vacancy rate grew in Kuznetsky Most Street, Nikolskaya Street, Arbat street on the back of, among other things, closed fashion operators and catering establishments, such as Burger King and KFC in Kamergersky Lane, Farsh, Nike, Massimo Dutti, Rendez-Vous in Kuznetsky Most Street, Kaif Burger in Nikolskaya Street, etc.

Among the transport and pedestrian trade corridors of Moscow, a vacancy rate decline falls on the Boulevard Ring (-2.8 percentage points) and the central trade corridor (-0.3 percentage points); 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).

Lease rates

According to the results of 2022, the highest asked rental rates are for premises* in Kuznetsky Most Street, Stoleshnikov Lane, and in the vicinity of the Patriarch's Ponds.

The minimum rates in 2022 decreased from 25,000 rubles to 20,000 rubles per sq m per year (Garden Ring, Mira Av. and Kutuzovsky Av.) due to release of new premises located away from the underground stations and/or central locations, and due to long exposure on the market as well.

A decrease in the lower limit of the rental rate was noted in half of the key trade corridors of Moscow, i.e. by 16-43%, depending on the street; in five analyzed streets, the rental rate grew or remained unchanged year on year.

A significant increase in the upper limit of the rental rate was recorded in Novy Arbat Street for possible growth of demand and in the vicinity of the Patriarch's Ponds due to limited high-quality supply and consistently high demand for premises there.

A decrease in the upper limit of the rental rate was noted only in 4 locations – by 10-31%, depending on the street, while the rest remained at the level of last year's indicators.

The change in rental rates depends largely on the location and quality characteristics of the leased facilities; an important role is also played by external factors that impact the tourist flow on historical and cultural streets and generate demand from potential tenants.

* The study is based on premises located on the 1st floor (first line) with an area of 100 sq m to 350 sq m

** Rental rates in these locations are similar to the level of H1 2022 due to the zero-vacancy rate

Forecast

In the current conditions, there is interest from the retailers in the street retail market due to a more stable position relative to the geopolitical situation. Unlike shopping centres, this is due to the fact that the Moscow street retail market is less dependent on foreign players. In the central trade corridors, in addition to the traditionally active demand from the food&beverage segment, it is also possible expect activity of various fashion players who seek to occupy premises in central locations to open their flagship projects, as this contributes to status improvement, which is confirmed by the experience of any international brand in any global capital.

The issue of temporary suspension of operations of international premium and luxury brands remains open. Many of them are now considering new solutions to logistical difficulties caused by the foreign policy situation. However, there are also companies considering their leaving the Russian market. Therefore, it is possible that 2023 will set a new development vector and become a reference point for the Moscow street retail market.

Vacant premises on pedestrian streets, where international brands were previously located, are already considered by other tenants from different categories.

In 2023, the following factors will have a key impact on the current and future development of retailers in Moscow's trade directions:

- Changed consumer behavior.
- Changed foreign tourist flow compared to the pre-crisis years.
- Changed vacancy rate due to possible leaving of international brands, including luxury ones.
- 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, but it is individual rather than mass. Liquid facilities in popular locations with high pedestrian traffic have not undergone significant changes in rental rates and in demand from tenants.

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

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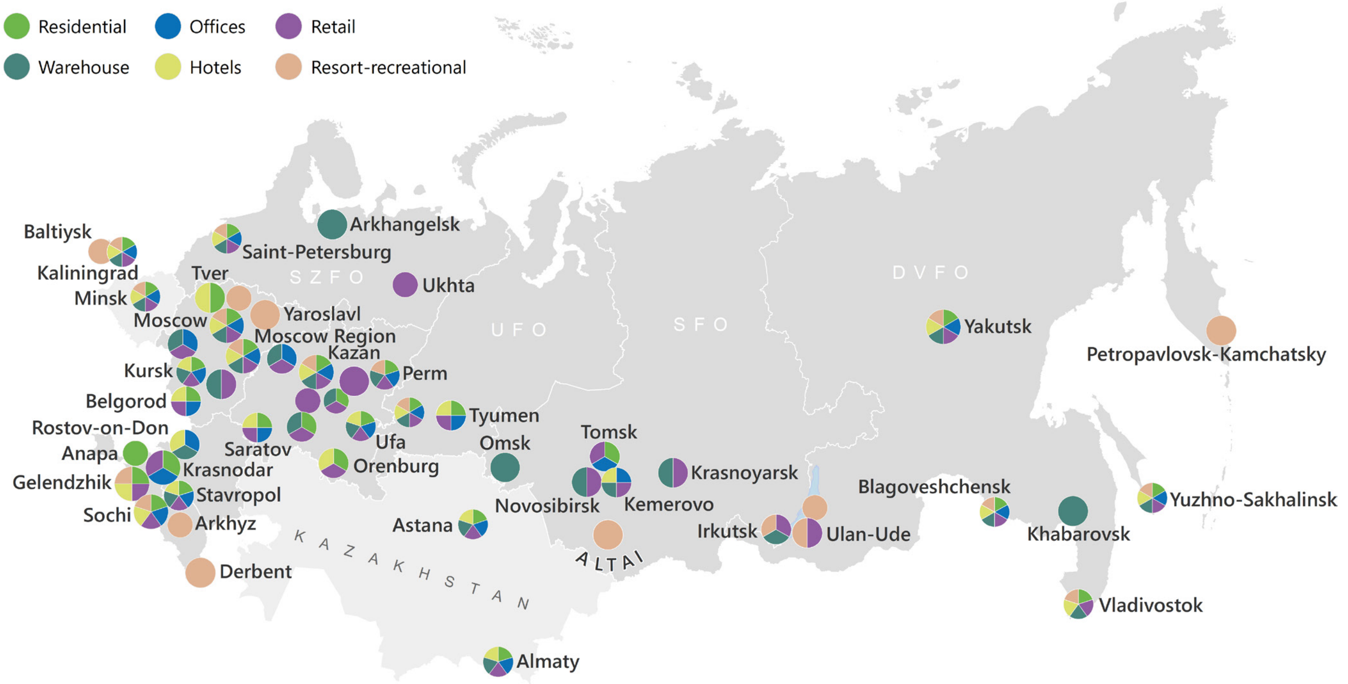

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