RESEARCH

2017

STREET RETAIL

(commercial and retail space) Saint Petersburg

HIGHLIGHTS

The minimum level of vacant space was registered on the main shopping highways of the city, the maximum - in sleeping quarters.

The rotation of tenants reached 15% for 2017.

In 2017, rental rates increased by 5%.

The main share of market 30% - public catering enterprises.

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«The street retail market showed high performance in 2017. During the year, each and all witnessed the new round of development of the segment of luxury brands in St. Petersburg. By the end of the year the situation stabilized and 3 streets - Bolshoy Ave P. S., Nevsky Ave and Bolshaya Konyushennaya St - retained the status of shopping corridors, where the brands of luxury segment were represented.

An unprecedented activity was demonstrated by public catering market, which accounted for the largest number of requests received by Knight Frank. As a result, several major landmark openings were held in the city: Duo Asia on Rubinshteina St, Syrovarnya in Kovensky Lane, #Farsh at Nevsky Ave and others.

In 2018, according to our forecasts, on the eve of the World Cup and the revival of the growth of tourist flows, market activity will continue in the segment of souvenir shops and public catering establishments».

City events

Circa 200,000 sq m of built-in commercial premises were added to the street retail market in St. Petersburg within 2017 because of the commissioning of new residential complexes.

The city was preparing in full swing for the World Cup in 2018 in Russia, for which reason the flow of fans and tourists from different countries was expected to enlarge significantly.

Lesnaya metro station was opened after major repairs at the end of the year, and a similar repair shall be completed at Academicheskaya station in 2018. In addition, 5 new metro stations are scheduled for opening in 2018: Prospect Slavy, Dunaysky Prospect, Yuzhnaya, Novokrestovskaya and Begovaya. The construction end of new metro stations stimulates an increase in traffic in the locations leading to an increase of tenant's interest and the appearance of new selling spots.

The transport infrastructure of St. Petersburg was actively developing in 2017, including the laying of about 40 km of bicycle lanes that appeared on a number of central streets of the city. At some parts of the lanes the movement of cyclists is combined with pedestrian walking areas (Petrogradskaya, Aptekarskaya and Pesochnaya embankments). The upgrading of embankments and lines for pedestrian and bicycle paths on the streets of the city stimulates the development of commerce in these locations.

A part of Bolshaya Morskaya Street from Nevsky Ave to the Arch of General Staff was also closed for the reconstruction of the pedestrian zone in H2 2017.

On the territory of the island New Holland the restored building of the former military prison Brtylka was opened.The new space housed a variety of commercial facilities - restaurants, bars, shops, sports sections and beauty studios. The opening of the world's largest planetarium was another interesting event in St. Petersburg. It was accommodated in the specially re-equipped former industrial building on the embankment of Obvodny Canal. Nearby it was planned to open exhibition halls, a sightseeing platform, a robotics workshop, an aviation design club, lecture halls. The formation of such creative spaces in the city on the territory of former industrial zones favourably affects the development of the location and leads to the revival of pedestrian traffic.

In general, 2017 was characterized by high activity of the street retail market. The rental rates growth was recorded in the most popular locations. The number of new operators, both local and federal, increased. The majority of new brands, entering the market in 2017, belonged to the fashion segment: Lise Charmel, Free Lance, Peserico, Converse, Barbour, BML, etc. It is also necessary to identify new companies that came to the St. Petersburg market: furniture and home furnishings - Hoff, DesignBoom, Galamart; children's thematic amusement parks Masha i Medved', Legorod, etc.

Key figures by categories of shopping corridors

	Average size of the premise, sq m	Vacancy rate (by area of the premise), %	Change 2017/2016, p. p.	Leading profile of tenants
Pedestrian streets	90.4	**5.7**	▲ **1**	Public catering
Main shopping highways of the city	133	**5.1**	▼ **-3.7**	Public catering
Significant shopping highways of central districts	110.7	**6.7**	▲ **1.3**	Public catering
Major peripheral highways of the city	91.2	**10.7**	▼ **-1.1**	Products
Local shopping streets of dormitory districts	109.5	**12.3**	▲ **3.8**	Products

Source: Knight Frank St. Petersburg Research, 2018

Figures and trends

There was a rise of vacant space in all shopping corridors at the end of 2017, with the exception of the city's main shopping highways. The reason for the growing vacancy in local shopping streets was the commissioning of new residential complexes with commercial premises, while the vacancy rate at the other highways moved up also due to the withdrawal of operators from less profitable selling points and the vacation of large-size premises. At the same time, there was still a shortage of quality supply satisfying tenants' requirements.

Public catering remained the leading profile of the street retail market as of the results of 2017, occupying the share of 31%, followed by products - 13% and clothing - 9%.

19% more selling points were opened than closed in 2017. The key number (27%) of new establishments belonged to the profile of public catering.

Tenants were highly active in St. Petersburg during the year. In general, the market rotation was 15% in 2017. The highest level of rotation was registered on pedestrian streets - 26%, the smallest - on the major peripheral highways of the city (14%).

A large number of openings, the entry of new brands, previously not represented in the city, contributed to the growth of rental rates in all shopping corridors.

The greatest boost was recorded on the main shopping highways of the city: there the rates rose by an average of 7% in 2017.

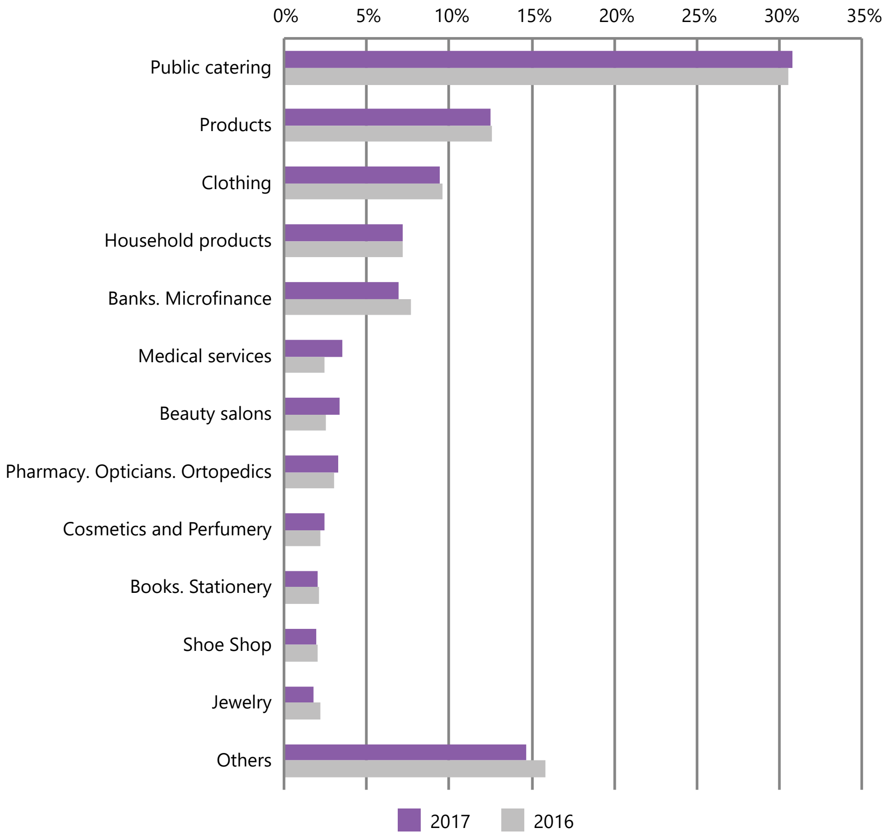
The 3% increase in rates was reported on pedestrian streets of the city, while the rents went up by 6% on the significant shopping highways of the central districts. Rubinshteina Street shall be highlighted separately as the rental rates were 10% up there for the year owing to high demand among potential tenants. The rental rates grew by 1% and 3%, respectively, on the major peripheral highways of the city and the local shopping streets of sleeping quarters.

The active rotation of fashion retailers in 2017 destabilized the street retail market. After the change of location of Louis Vuitton and Chanel from Bolshaya Konyushennaya St to Nevsky Ave (part of Staro-Nevsky) in 2016, they were followed by Christian Dior and a number of new brands (Escada, Bvlgari, Lise Charmel, LENA, etc.). However, the situation calmed down by the end of the year. B. Konyushennaya St and Bolshoy Avenue P. S. retained the status of shopping corridors in the luxury segment and kept the rental rates steady. Significantly, the rates went up in the location of Staro-Nevsky.

One of 2017 market trends was an increase of the share of confectionery shops (bonbons and sweets). Just Nevsky Avenue witnessed the openings of a confectionery by Sladky Soyuz Trade House, Sever confectionery and a brand shop of Alyonka, which planned to open another shop - at 79, Nevsky Ave.

Moreover, several premium grocery neighbourhood stores were opened at Nevsky Avenue. At the beginning of the year, the chain Land leased space in Passage Shopping Centre, and Perekryostok functioned in Perinnye Ryady Shopping Centre. Azbuka Vkusa started 2 AB Daily minimarkets on 142 and 72, Nevsky Ave, where the broker of one of the transactions was Knight Frank St. Petersburg.

Change of the structure of tenants'profile



Source: Knight Frank St. Petersburg Research, 2018

Rotation by key shopping corridors

Source: Knight Frank St. Petersburg Research, 2018

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In general, the entire segment of food retailers increased its lead. Perekryostok, Pyaterochka, Magnit, SPAR, etc. performed actively while Estny chain significantly reduced its presence, closing a major part of its stores.

The downward trend of the size of the stores' format was growing. A new store of household appliances and electronics Maxidom was launched in St. Petersburg in 2017 in the format of a supermarket - with a cutdown assortment of goods. OBI and Leroy Merlin chains also planned to start developing compact supermarkets in Russia in 2018.

The segment of coffee shops grew rapidly in 2017. The coffee shops of the Israeli chain Cofix, the Moldovan chain Tucano Coffee, the chain of Omsk coffee shops Skuratov Coffee, and Baggins came to the market of St. Petersburg. Several large chains carried out rebranding: Coffeeshop Company, Shokoladnitsa and Coffee House. Moreover, the companies were developing a new format of coffee shops - more compact, with drinks and take-away snacks.

New restaurants of Asian cuisine continued to be added to the market of public catering. The openings of Duo Asia on Rubinshteina Street and the Pan-Asian restaurant Shikari on Nevsky Ave were among the major events at the public catering market of the last six months.

H2 2017 evidenced the following notable events in the restaurant business – the openings of two at a time establishments by Moscow restaurateur Arkady Novikov – #Farsh burger bar and Syrovarnya restaurant with its own cheese production.

There was a high demand for the lease of premises among Moscow, federal and international operators in 2017. Thus, the first store of the Russian jewelry holding Ringo was opened in Nevsky Ave, the broker of the transaction was Knight Frank St. Petersburg.

The first selling point in the city of one of the world's largest chains of pizzerias Domino's Pizza was opened on Grazhdansky Ave. In addition, the Moscow chain of street food restaurants DvizhOK approached the market. Some regional chains not represented in Moscow began their development from St. Petersburg, for example, the chain of confectionery shops Volshebnaya Caramel.

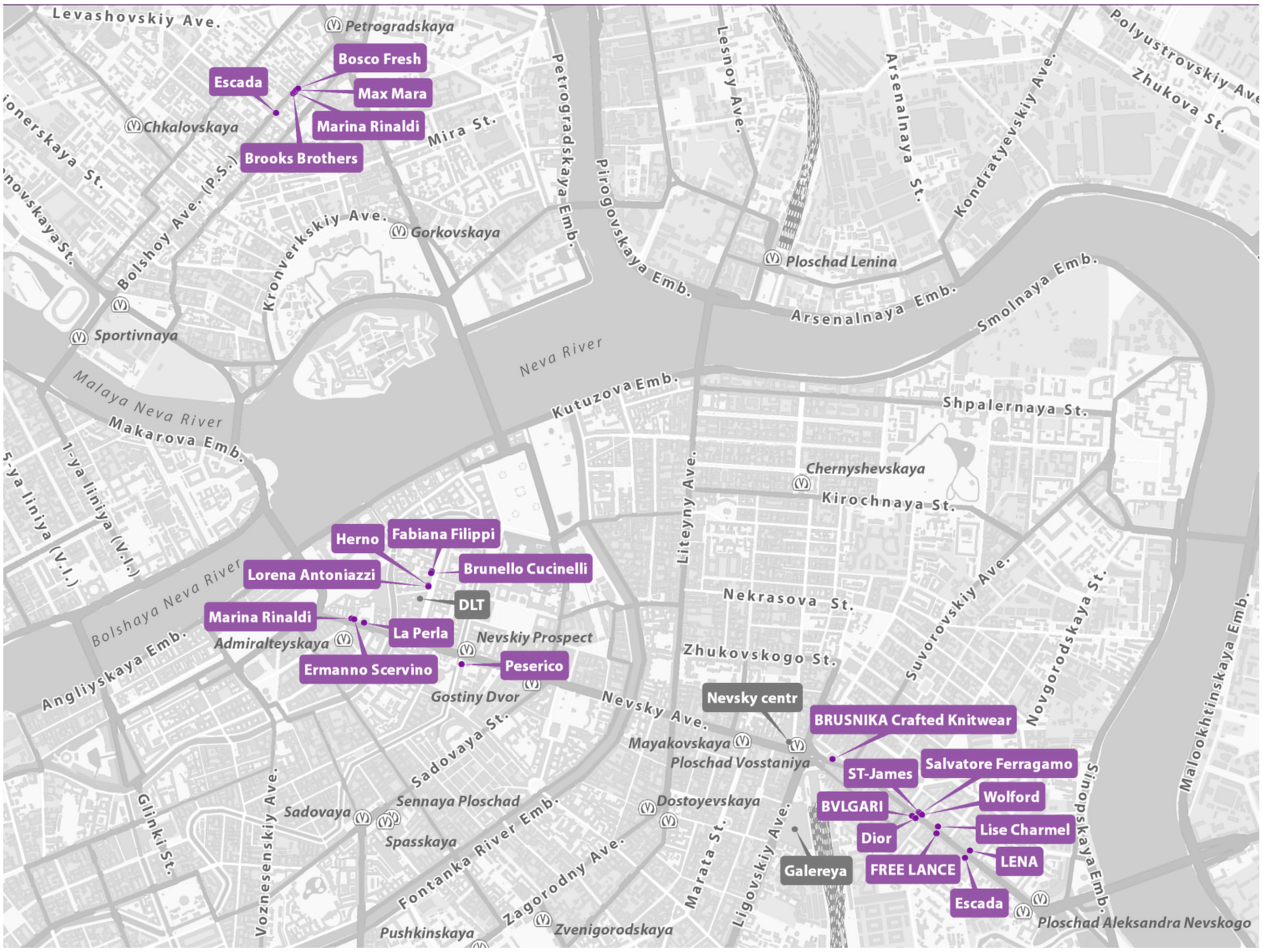
In 2018, it is planned to open two new beer restaurants of the Novgorod chain Brewmen.

The level and dynamics of rents by main shopping streets*

Categories of streets	Streets	Rental rate, rub./sq m/month**
Pedestrian streets	M. Sadovaya	3 500-5 500 ▲
	1-st Sovetskaya	1 500-3 000 =
	Telezhny Lane	2 500-6 000 ▲
	M. Konyushennaya	2 500-4 500 ▲
	6-7th Lines	2 500-5 000 ▲
Major peripheral highways of the city	Leninsky	1 700-5 500 ▲
	Slavy	1 200-2 500 =
	Komendantsky	1 500-4 500 ▲
	Prosvescheniya	1 800-4 500 ▲
Local shopping streets of dormitory districts	Entuziastov / Industrialny	1 500-3 500 =
	Shushary	1 200-2 500 ▲
	Baltiiskaya Zhemchuzhina	1 200-3 000 ▲
	Optikov / Turistskaya	1 200-2 500 ▲
Main shopping highways of the city	Nevsky	7 000-15 000 ▲
	Bolshoy Ave of Petrogradskaya Side	2 500-5 000 ▲
	Kamennoostrovsky	1 500-4 000 ▲
	Moskovsky	2 500-7 000 ▲
Significant shopping highways of central districts	B. Morskskaya	2 500-5 500 ▲
	B. Konyushennaya	4 000-10 000 ▲
	Rubinshteina	3 500-6 500 ▲
	Vladimirsky	2 500-4 000 =
	M. Morskaya	2 000-4 000 ▲
	Mayakovskaya	2 000-3 500 =
	Vosstaniya	2 500-6 000 ▲
	Kirochnaya	1 800-6 500 ▲
	Zagorodny	2 000-4 000 ▲
	Gorokhovaya	1 800-4 000 ▲
	Sadovaya	4 000-12 000 ▲
	Sredny Ave of Vasilyevsky Island	2 500-7 000 ▲
	Ligovsky	2 000-5 000 ▲
	Liteiny	1 700-5 000 ▲

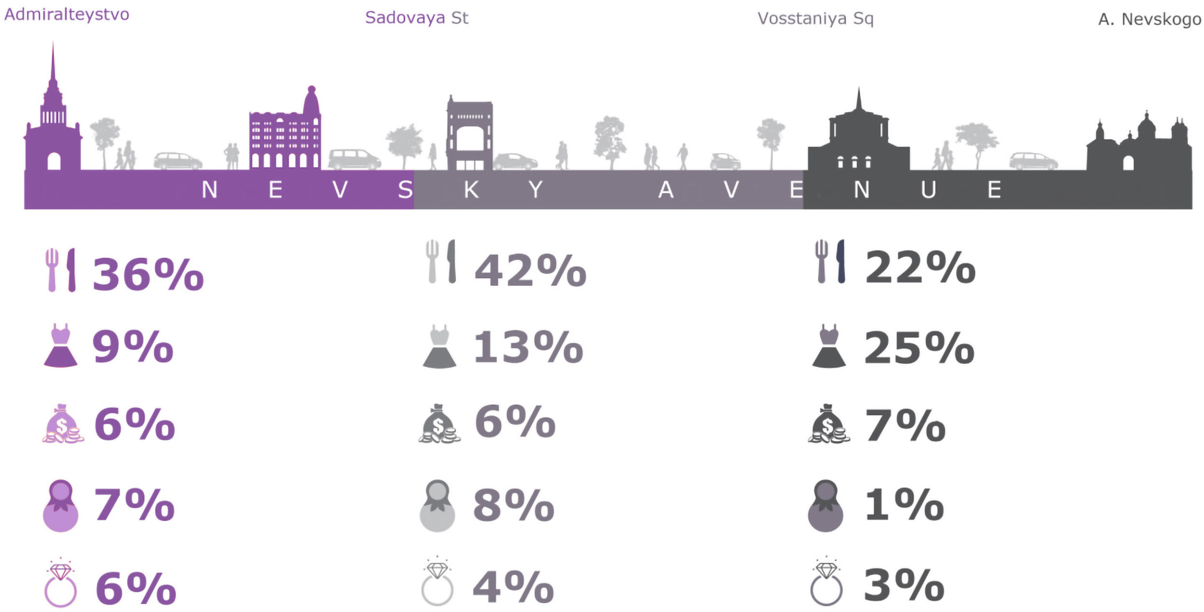
* Dynamics 2017/2016
** Premises of 100–200 sq m, located on the 1st floor
Source: Knight Frank St. Petersburg Research, 2018

The map of boutiques of fashion brands of luxury and premium segments opened in 2017



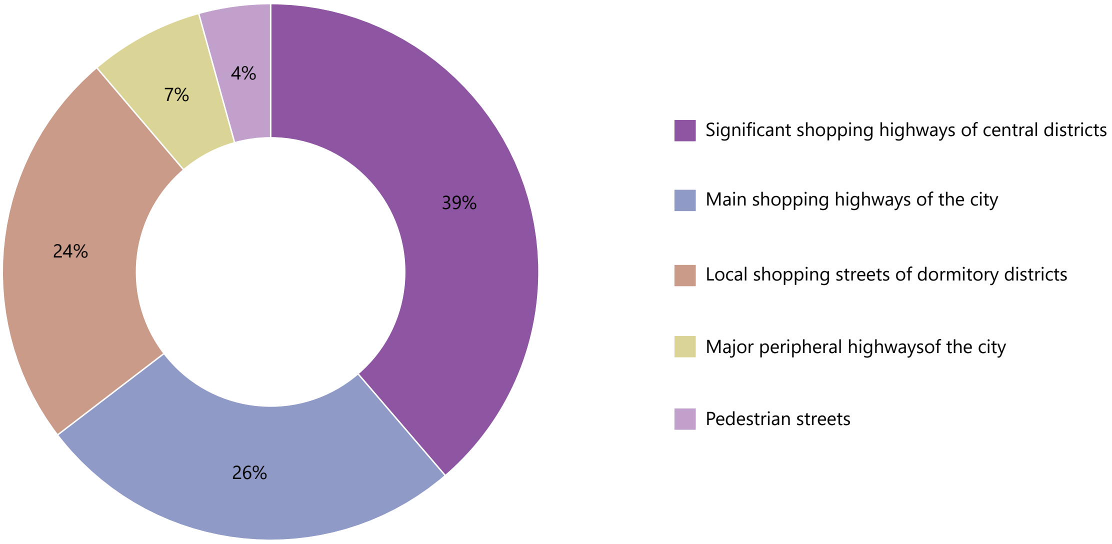
Source: Knight Frank St. Petersburg Research, 2018

Profiles of tenants at Nevsky Ave



Source: Knight Frank St. Petersburg Research, 2018

Tenants' requests by categories of shopping streets



Source: Knight Frank St. Petersburg Research, 2018

More than 70% of requests received from clients of Knight Frank in 2017 came from public catering operators. The other popular requests were from banks and clothing stores.

The most common streets requested by clients were Moskovsky Ave, Nevsky Ave, Rubinshteina Street and Centralny and Petrogradsky districts in general.

The average area of premises considered by potential tenants was 200 sq m: 220 sq m for restaurants, 180 sq m for the banks, 140 sq m for clothing stores.

One of the basic requirements from the most part of potential tenants was high pedestrian and transport traffic. Public catering operators demanded shop or panoramic windows. Restaurants, supermarkets and banks often considered premises previously occupied by a tenant of the same profile.

In 2018, we expect the further development of the street retail market and an uprise of interest of new brands to St. Petersburg.

Key openings at the street retail market of Saint Petersburg in 2017

Brand	Profile	Address
Escada	Clothing	51, Bolshoy Ave P. S.
Dior	Clothing	113, Nevsky Ave
Brunello Cochinelli	Clothing	13, B. Konyushennaya St
Lorena Antoniazzi	Clothing	19, B. Konyushennaya St
Herno	Clothing	19, B. Konyushennaya St
Ringo	Jewelry	137, Nevsky Ave
#Farsch	Public catering	38, Mikhailovskaya St
Moskva-Pekin	Public catering	8, Aptekarskaya Emb.
Duo Asia	Public catering	20, Rubinshteina St
Syrovarnya	Public catering	5, Kovensky Lane
Domino’s Pizza	Public catering	111, Grazhdansky Ave
BVLGARI	Accessories	113, Nevsky Ave
AB Daily market	Products	72, Nevsky Ave

Source: Knight Frank St. Petersburg Research, 2018

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STREET RETAIL

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