

# STREET RETAIL

HI 2021

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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"In the first half of 2021, we continue to observe the consequences of the pandemic, which are expressed in the vacancy rate of retail space in trade corridors. Separately, we would like to highlight the two-fold introduction of restrictive measures for catering operators: first for several weeks in winter, then for several weeks in summer. During the period of restrictions, there was an acute problem of closing many public catering enterprises due to a shortfall in profit, the majority of the revenue reached 10-20% compared to the same periods of previous years.

At the same time, in the first six months of 2021, 33 new catering operators were opened with a total leased area of 6.9 thousand square meters. m.

If we pay attention to the vacancy, for example, on Arbat Street, which was a clear outsider at the end of 2020, we observe an increase in demand among tenants and a decrease in the share of vacant premises.

The rise in rental rates on key retail corridors and the recovery in consumer flow tell us about the gradual end of the «pandemic crisis.

If by the end of the year additional restrictions are not introduced for retailers (such as QR codes for public catering), we can more confidently speak of a complete recovery of the market by the end of the 1H 2022."

## Conclusions

- ♦ By the end of H1 of 2021, the total street retail space amounted to 792.4 thousand sq. m., the average size of premises was 166.3 sq. m., and the increase of new supply for the year was 2.3%.
- ♦ Currently the total volume of vacancies in street retail premises is about 131,000 sq. m.
- ♦ The catering segment continues to be the leader in the tenants' structure with a share of 46.0% in pedestrian streets within the Garden Ring Road and 38.0% in central trade corridors with transport and pedestrian traffic.
- ♦ Fashion operators are most active in terms of premises located in the pedestrian streets and form 24.6% of the demand structure.

## Supply

By the end of H1 of 2021, the total volume of street retail space amounted to 792.4 thousand sq. m., the average premise area was 166.3 sq. m., and the increase of new supply was 2.3%:

- ♦ in the pedestrian streets — 88.5 thousand sq. m;
- ♦ in the central trade corridors — 452.9 thousand sq. m;
- ♦ in the main streets — 251,000 sq. m.

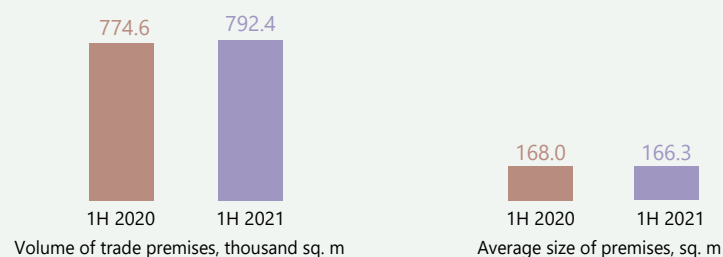
It should be noted that buildings 7 and 20 in Tverskaya Street, as well as 4/5 in Nikolskaya Street, are under reconstruction.

In tenants structure by area the largest volume of premises is in the central trade corridors and main streets with area 100-200 sq. m is 24.3% and 26.9% respectively.

Food & beverage operators with 46% share is the leader in tenants group in pedestrian streets (has decreased by 1.6 p. p. over year). Fashion retailers account for 24.6% of total space (increase by 0.7 p.p.), gifts and souvenirs account for 4.8%(+0.2 p.p.). Tenants shares in other profiles does not exceed 3.6%.

The public catering sector also retains the leading positions in central retail

Street retail supply dynamics, 2021 vs 2020



\* For 14 pedestrian streets (or sections thereof) that are in greatest demand from retail operators: Arbat, Kuznetsky Most (partly), Nikolskaya Street, Rozhdestvenka (partly), Kamergersky and Stoleshnikov lanes, Tretyakovsky passage, as well as 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

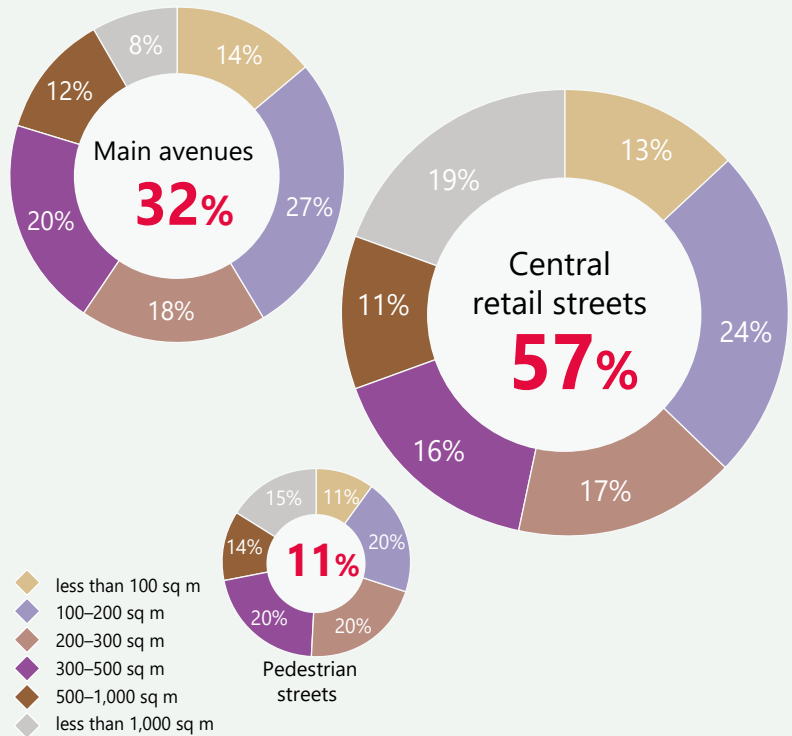
Source: Knight Frank Research, 2021

frontages with a share of 38.0%. However, at the same time, leisure concepts (8.2%, a decrease by 0.6 p.p. over the year), as well as banks and financial companies (8.5%, a decrease by 0.2 p.p. over the year) are also more represented. It should be noted that the share of fashion operators in the structure of demand compared to pedestrian streets is significantly lower: only 9.1% (+ 1.1 p.p.).

The structure of the tenants in main streets by their profile is more diverse. The leading position here in terms of the retail space area is occupied by household goods stores with a share of 15.7% (- 1.1 p.p.), followed by food stores (15.6%, an increase of 1.3 p.p.) and catering operators with a share of 14.6%. Fashion operators showed the maximum increase of 2.7 p.p. in retail space over the past year with a share of 12.1%.

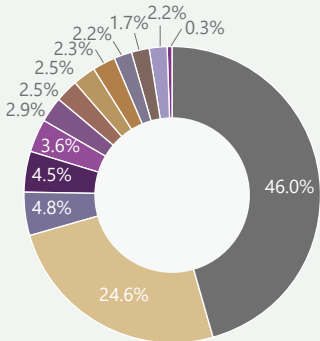
Cafes and restaurants in Moscow, which suffered the most due to the 2020 lockdown began to gradually recover in 1H 2021: 33 new establishments with a total leasable area of 6.9 thousand sq. m were opened during the first six months.

Tenants structure by area, sq. m, H1 2021



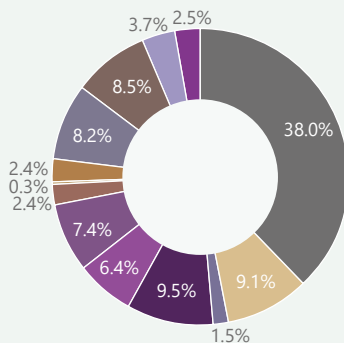
Source: Knight Frank Research, 2021

The tenants breakdown by profiles on the pedestrian streets, H1 2021



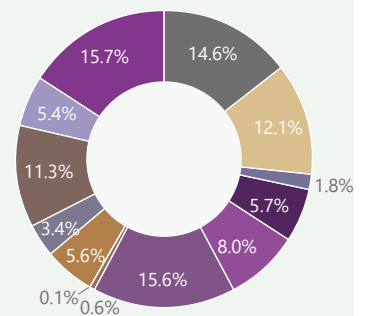
- ◆ Food&Beverage
- ◆ Apparel
- ◆ Gifts / Souvenirs
- ◆ Other
- ◆ Services, including medical services

The tenants breakdown by profiles on the transport and pedestrian streets, H1 2021



- ◆ Food products
- ◆ Jewellery
- ◆ Accessories
- ◆ Pharmacy / Optics
- ◆ Leisure concepts (entertainment / sport / hobbies)

The tenants breakdown by profiles on the main avenues, H1 2021



- ◆ Banks / Finance / Insurance
- ◆ Beauty shop
- ◆ Household goods

Source: Knight Frank Research, 2021

## Vacancy

According to the results of the 1H 2021, a large volume of vacant premises in the street retail remains in almost all trade corridors of Moscow - about 131.4 thousand sq. m, which generally corresponds to the size of two large-format shopping centers.

The average vacancy rate is 16.6%, which is 2.9% more than the same period last year. The increase in vacancy was observed in all types of street retail in the average range of 1.7% –3.6%. A gradual increase in demand from tenants in 1H resulted in the reduced increase of the vacancy rate, which does not exceed 1.8 p.p.

On pedestrian streets, there is a recovery in demand on Arbat and Kamergersky Lane, which traditionally concentrate significant tourist and business traffic - by the end of the first half of the year, the share of vacant premises here decreased to 13.6% and 14.4%, respectively. There was an increase in the share of vacant space on Nikolskaya, Rozhdestvenka, Kuznetsky Most streets and Stoleshnikov Lane, which is connected, among other things, with the closure of catering operators after the introduction of new anti-pandemic measures (QR codes) Jagannath (opened after the codes were canceled), Vogue Café, Kamchatka, Jaeger LeCoultre, and “Vino tantsy khachapuri” were closed.

In the central trade corridors of Moscow, the maximum increase (by 4.6 p.p.) observed in Boulevard Ring, where the vacancy rate was 14.0% against 9.4% at the end of 2020.

The first six months of 2021 noted a recovery in the flow of customers after the cancellation of the restriction regime, which had a positive effect on the capital street retail market: despite the growth of vacant space recorded in the first half of 2021 - new restaurants were already opening in place of the closed restaurants, the same applies to other profiles.

New restriction of anti-covid measures in Moscow in July 2021 will slow down the emerging positive trends

### Dynamics of the vacancy rate on the street retail market, 1H 2021 vs 1H 2020

	Share of vacant spaces, %		
	1H 2020	1H 2021	Dynamics
<b>Pedestrian streets</b>			
Arbat St.	15.0%	13.6%	-1.4 p. p.
Bolshoy Tolmachevsky Pereulok	0.0%	0.0%	0.0 p. p.
Kamergersky lane	15.3%	14.4%	-0.9 p. p.
Klimentovsky lane	1.0%	0.0%	-1.0 p. p.
Kuznetsky Most	13.0%	16.5%	+3.5 p. p.
Nikolskaya St.	11.8%	15.3%	+3.5 p. p.
Rozhdestvenka St.	8.0%	9.8%	+1.8 p. p.
Stoleshnikov lane	4.7%	8.8%	+4.1 p. p.
<b>Main central trade corridors</b>			
Boulevard Ring	7.9%	14.0%	6.1 p. p.
Garden Ring	9.9%	14.2%	4.3 p. p.
Central trade corridors	15.1%	16.2%	1.6 p. p.
<b>Central trade corridors</b>			
Bolshaya Lubyanka St.	24.4%	23.7%	-0.7 p. p.
Bolshaya Ordynka St.	24.4%	27.3%	+2.9 p. p.
Bolshaya Yakimanka St.	13.8%	21.7%	+7.9 p. p.
Maroseika St.	14.6%	10.6%	-4.0 p. p.
Myasnitskaya St.	25.3%	20.9%	-4.4 p. p.
Neglinnaya St.	8.0%	11.8%	+3.8 p. p.
Novokuznetskaya St.	0.0%	4.1%	+4.1 p. p.
New Arbat St.,	12.8%	10.9%	-1.9 p. p.
Ostozhenka St.	35.0%	41.5%	-1.0 p. p.
Petrovka St.	13.3%	15.5%	+6.5 p. p.
Pokrovka St.	15.0%	14.1%	+2.2 p. p.
Pyatnitskaya St.	13.5%	9.9%	-3.6 p. p.
Tverskaya St.	7.2%	20.5%	+13.3 p. p.
<b>Main streets</b>			
Kutuzovsky Av.	24.9%	29.4%	+4.5 p. p.
Leninsky Av.	13.6%	16.9%	+3.3 p. p.
Mira Av.	17.5%	21.1%	+3.6 p. p.
Leningradsky Av.	15.5%	17.0%	+1.5 p. p.
Komsomolsky Av.	13.4%	20.5%	+7.1 p. p.

Source: Knight Frank Research, 2021



### Dynamics of the rental rate on the street retail market, 2021 vs 2020

Indicator	1H 2020	2H 2020	1H 2021	Dynamics	
				Half-year	Year
Pedestrian streets	9.9%	10.4%	12.0%	+1.6 p. p.	+2.1 p. p.
Central trade corridors	12.9%	16.3%	15.3%	-1.0 p. p.	+3.4 p. p.
Main streets	16.8%	18.7%	20.5%	+1.8 p. p.	+3.7 p. p.

Source: Knight Frank Research, 2021



## Rates

By the end of 1H 2020 the highest rental rates requested are equivalent to premises located on Tverskaya Street (in the section from Okhotny Ryad underground station to Pushkinskaya underground station), Nikolskaya Street, and Kuznetsky Most Street.

The minimum rate in 1H 2021 decreased from 30,000 rubles to 20,000 rubles per sq. m. per year (Garden Ring Road). The maximum rate is about 235,000 rubles/sq. m.

Decrease in the lower rental rate limit was noted in most of the key trade corridors of city: by 1–33% depending on the street.

A significant increase in the upper rental rate limit was noted in Tverskaya Street (in the section from Okhotny Ryad underground station to Pushkinskaya underground station), Arbat, and Nikolskaya Street.

## Forecasts

Restrictive measures to prevent the spread of coronavirus infection had a key impact on the current and future development of retailers in of retailers in Moscow's trade corridors during 2020 and H1 of 2021:

- ♦ Restrictions on the operation of catering companies: take-out and delivery, shortened business hours, increased seating rates.
- ♦ Restrictions on the operation of the beauty industry companies.
- ♦ Lack of foreign tourist flow.
- ♦ Reduced visiting of the central districts of capital.
- ♦ Decrease in number of employees working in office.

In the first half of 2021, operators are gradually recovering after the withdrawal of the self-isolation regime. It is possible to reduce the volume of vacant space on the main shopping streets of Moscow to the pre-crisis level no earlier than the end

of 2021 - the beginning of 2022. This is due, inter alia, to the introduction of new preventive measures. : the temporary introduction of a QR code system for visiting shopping centers and street retail premises, a temporary restriction of work at night and the obligatory transfer of some employees to remote work.

In the short term, an increase in the supply of street retail space is expected, despite negative factors, for example, Fairmont Residences Moscow at ul. Tverskaya, created as a result of the renovation of the central locations of the capital: the embankments of Taras Shevchenko and Berezhkovskaya, the «HPP-2» project on Bolotny Island.

### ▼ Dynamics of the rental rate on the street retail market, 2021 vs 2020

Name of street or trade area	Rental rate (thousand rubles/sq. m/year), w/o VAT					
	H2 2020		H2 2021		Change	
	min	max	min	max	lower limit compared to previous year, p.p.	upper limit compared to previous year, p.p.
Arbat St.	60	125	50	180	-17%	44%
Nikolskaya St.	90	160	86	230	-6%	44%
Tverskaya St. (from Okhotny Ryad subway station to Pushkinskaya subway station)	45	150	40	215	-11%	43%
Pyatnitskaya St.	35	125	25	150	-29%	20%
Garden Ring	30	80	20	90	-33%	13%
Mira Av.	30	120	30	130	0%	8%
Patriarch's Ponds	70	140	85	150	21%	7%
Kuznetsky Most St.	80	220	60	235	-25%	7%
Noviy Arbat St.	50	105	45	90	-11%	-14%
Stoleshnikov Lane	100	200	101	160	1%	-20%
Myasnitskaya St.	65	125	50	100	-23%	-20%
Kamergersky lane	70	110	60	80	-17%	-27%
Petrovka St.	50	170	40	120	-22%	-29%
Kutuzovsky Av.	30	75	30	50	0%	-33%

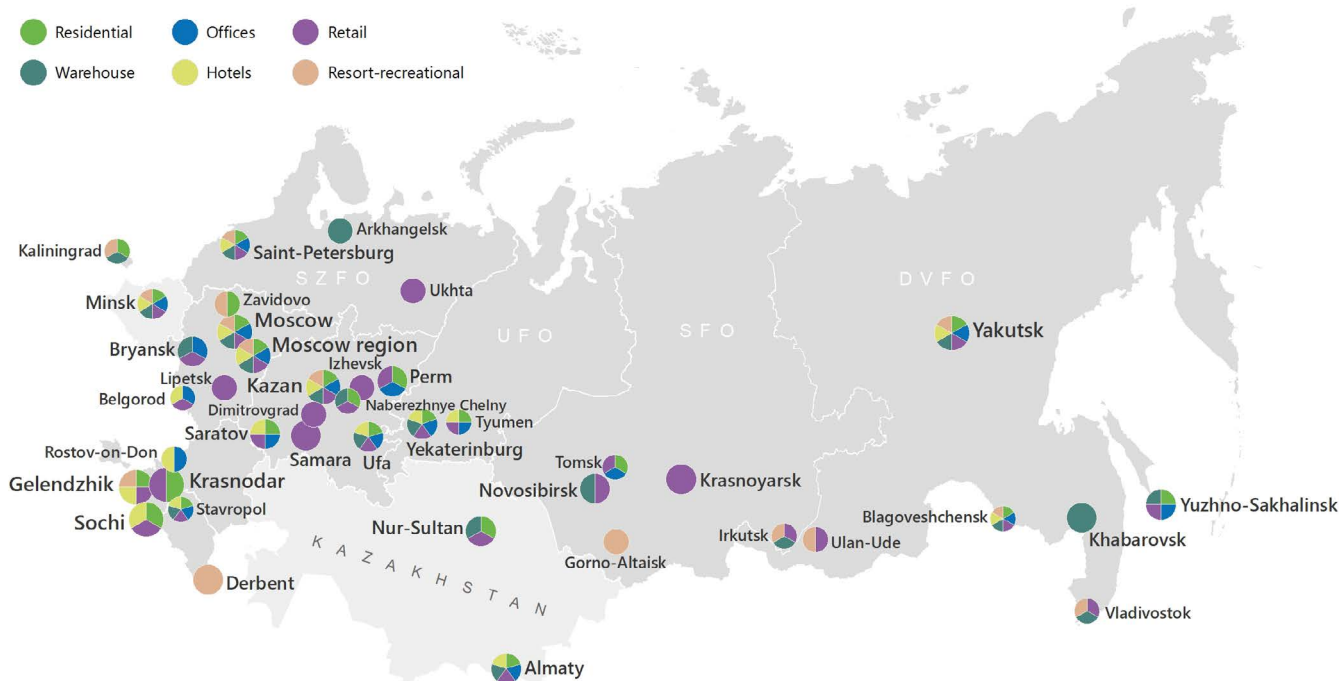
\*Data are ranked by the upper limit of 1H 2021.

Source: Knight Frank Research, 2021

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