RESEARCH

Knight Frank

2016

STREET RETAIL

Saint Petersburg

HIGHLIGHTS

The premises of street retail format have been actively on the rise due to record delivery of new housing in St. Petersburg. 114.6 thousand sq m of ground floor commercial premises were commissioned within the limits of St. Petersburg in 2016.

The highest rotation of tenants and the rents dynamics have been registered in the shopping streets adjacent to the opening and closing metro stations.

The lowest vacancy rate has been recorded in pedestrian streets, the highest – in major peripheral highways of the city.

Public catering enterprises occupy the main market share in the structure of the street retail premises of central shopping streets and main shopping highways.

STREET RETAIL SAINT PETERSBURG

City events

The street retail segment is one of the most dynamic and resistant to negative economic factors. The processes and trends in the development of urban environment and infrastructure have the greatest impact on it – the construction of new residential districts, transport development, the creation of public and pedestrian areas. The following events can be distinguished in 2016:

- The closing/opening of metro stations after renovation or new delivery. Vyborgskaya metro station was relaunched just before 2016, Vasileostrovskaya metro station was opened in May 2016 after renovation, and Elizarovskaya metro station was started to operate again at the end of the year. The closure of a metro station, forming pedestrian flows, becomes a factor compromising the business functioning for a significant part of operators. The rotation of tenants near the metro station is at least 30% at that time. As a rule, temporary traffic reduction is not a reason to move for more sustainable chain operators or stores for target visiting. The strong dynamics of the street retail segment in 2017 will occur in the zone of influence of Lesnaya metro station, which is being closed for repairs. In turn, the construction of new stations attracts the attention of investors and operators to the appropriate locations long before their opening. So, the planned opening of three new stations of Frunzensky radius in the south of the city stimulates the rents increase and the interest of tenants to street retail premises in the area adjoining Bucharestskaya Street.
- The volume of residential complexes constructed during the year reached record-breaking proportions for the last 12 years: the area of flats built in St. Petersburg and the Leningrad region amounted to 4.45 million sq m. The tendency of delivery growth was the most active in the development of suburban areas around the Ring Road, but more than 3 million sq m of housing were put into operation

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"Food retailers, public catering and souvenir shops in tourist locations were the most active tenants of the street retail market in 2016.

There is a shortage of 100–150 sq m space within the main shopping corridors: Nevsky Avenue, Bolshoy Avenue of Petrogradskaya Side, as well as on the restaurant streets – Rubinshteina and Belinskogo. The interest in leasing premises in Sennaya Square significantly increased after its renovation.

High competition among food retailers is pushing them to occupy new niches and develop the formats unusual for them previously. For example, Lenta is actively looking for premises for supermarkets, while premium operators open convenience stores with a selective range of products.

The luxury segment is shifted to a new location – Staro-Nevsky Avenue – where Louis Vuitton has been added to the existing pool of operators. Bolshaya Konyushennaya Street, on the contrary, is becoming one of the main shopping corridors in the premium segment.

The following restaurants premiered this year: SB burgers (27, Nevsky Avenue), MAO Noodle Shop (112, Nevsky Avenue), Amsterdam chips (63, Nevsky Avenue). Newman coffee on 94, Nevsky Avenue and Le Pain Quotidien on 29, Nevsky Avenue were also set up.

Banks have revised their development strategy surrendering the premises with surplus area, and now they are looking for facilities within walking distance from a metro station, with easy parking and flawless visual and technical characteristics.

The adjustment of rental rates can be predicted in 2017 depending on the location of premises increasing the rental gap between centrally located premises and facilities with low traffic. Operators will continue executing business improvement processes and will be careful in the choice of new outlets".

within the limits of St. Petersburg, which became one of the record-setting figures in the history of the market. Extensive construction of housing, particularly in new districts, inevitably gives rise to the increase in ground floor commercial premises. This figure reached a total of 114.6 thousand sq m in 2016. The greatest total area of new ground floor commercial premises was registered in Moskovsky, Krasnogvardeisky and Primorsky districts.

- Another location in the city centre received the status of the pedestrian street in August 2016. Subsequently, the competition was held on the improvement of Bolshaya Morskaya Street, where the winning project was an open air anteroom of Hermitage. According to the plan, this small street will turn into a multifunctional space. The central part will be used for exhibitions and expositions with elements of landscaping and a fountain. The sides of the street will remain at the disposal of pedestrians. There are few pedestrian streets in St. Petersburg, and their premises are urgently in demand, especially among operators of public catering and souvenirs. So, the conversion of even 100-meter plot on Bolshaya Morskaya Street can be considered a significant event for the street retail market. Improvement works of the street will begin in 2017.
- The opening of Novaya Gollandiya (literally New Holland) new creative space was held after the three years of reconstruction works. The first phase of the project was launched, which included the improvement of park space with temporary kiosks, system of engineering solutions and engineering infrastructure networks, as well as the first restored buildings and a restaurant in the former building of the forge (Kuznya). The reorganization of space was held at a qualitative level. It can now be used year-round, and further stages of development will follow in 2017. Such an event is stimulating for operators due to the traffic greatly increased at this location. In particular, the growth of pedestrian traffic along Konnogvardeysky Boulevard will provide higher performance primarily for public catering, and the rates will be increased by at least 10–15% in the near future, according to our estimates. The concept of perspective development of the island of Novaya Gollandiya, prepared with the participation of Knight Frank, provides accommodation of a significant amount of goods and services with an access from the public space on the first floors of historic buildings.
- The public space in Sennaya square was rearranged. All kiosks were demounted on the territory of more than 15 000 sq m in mid-October. A visual extension of space has created a significant potential for the development of operators occupying premises in the buildings framing the square.

Figures and trends

17 new retail operators entered the market of St. Petersburg during the year, specifically the activity was displayed by both domestic and foreign chains. The most part of new operators of clothing and footwear category preferred opening in shopping centres. At the same time, the stores of such foreign brands started working in the street retail format: Veta, Eres, Jil Sander Navy, they leased premises on the main shopping highways of central districts. Grocery and alcohol stores, even the newcomers, were also significantly energetic. So, the chains of alcoholic beverages stores which had been launched in 2015 (Vinion, RosAl, Vyp' and others) were followed by Krepost' 24 and Rusalka chains in 2016, Krasnoe I beloe chain announced the upcoming opening. Alcoholic beverages stores are traditionally active in residential districts and occupy the premises of 150–300 sq m. Wine Atelier Abrau-Durso from the higher price category was started in Velikan-park Shopping and Entertainment Centre. The opening of 7 pharmacies by Mega Farm at the end of December shall be highlighted among chain startups, its parent company SIA INTERNATIONAL LTD plans to develop the chain up to 150 outlets in St. Petersburg and the Leningrad region in 2017.

Public catering has traditionally been the most dynamic segment. 110 new cafes and restaurants have opened their doors for residents and visitors of the city. The share of street retail enterprises reached a total of 84%, part of the restaurants and cafes were integrated in shopping and entertainment centres as well as in business and creative clusters. Bolshoy restoran Tsin' became the largest and the most spacious among Chinese food restaurants of the city which was opened during the year in the Russian-Chinese Business Park. Farm Benoit family restaurant shall be emphasized among the largest new restaurants outside the city centre. The restaurant enhanced Benoît 1890 cultural space, its development began in 2011 with the date of sale of Benoit forest dairy farm through a bidding. The large restaurant Maimun, located in Park Inn by Radisson Pribaltiyskaya, add to the map of Ginza chain. Such noticeable public catering outlets in ground floor premises on Nevsky Avenue were opened: Amsterdam Chips Company, Bread & Meat, Mao and a restaurant with a unique concept – Kvartira Kosti Kroitsa. The traditional activity was observed at the most popular restaurant

Key figures by categories of shopping corridors

	Average size of the premise, sq m	Vacancy rate (by area of the premise), %	Leading profile of tenants
Pedestrian streets	93	4.7	Public catering
Major shopping highways of the city	135	8.8	Public catering
Important shopping highways of central districts	112	5.4	Public catering
Major peripheral highways of the city	88	9.6	Groceries
Local shopping streets of residential districts	132	8.5	Groceries

Source: Knight Frank St. Petersburg Research, 2017

The level and dynamics of rents by main shopping streets

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

* Dynamics for 2016

Source: Knight Frank St. Petersburg Research, 2017

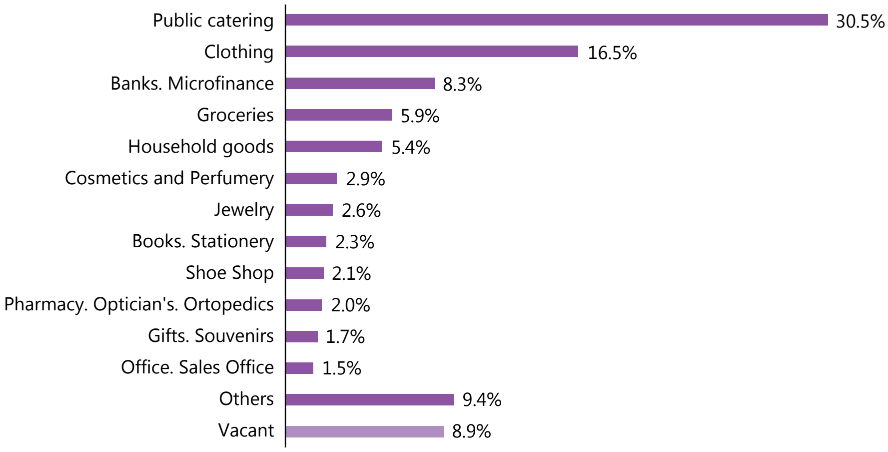
Map of public catering enterprises opened in 2016

Source: Knight Frank St. Petersburg Research, 2017 streets – Rubinshteina and Belinskogo. The shortage of vacant space on Rubinshteina Street stimulates interest of restaurateurs to premises on first floors, where in the past year the doors of such new enterprises were opened as Craze Wine, Smoke, Social Club and Rubinshtein. St. Martin Bar, Bar, Kotorogo net... (The bar that does not exist...) and Gastrobar Pinch! were set up at Belinskogo Street. In general, restaurant premieres are more common on small and quiet streets of the city centre, such as Nekrasova, Zhukovskogo, Vosstaniya. Therefore, unique gastronomic routes are being shaped attractive both for residents and tourists. A steady interest in the premises for public catering continues to persist in districts where domestic demand prevails and in large residential complexes.

The rents both on restaurant streets and on popular tourist highways evidenced a slight increase during the year (from 5% to 15% depending on the location). This is not only due to the development of restaurant culture in general and the active development of various restaurant concepts, but also thanks to certain expectations of market players for the tourist flow growth in the city as the 2018 World Cup approaching.

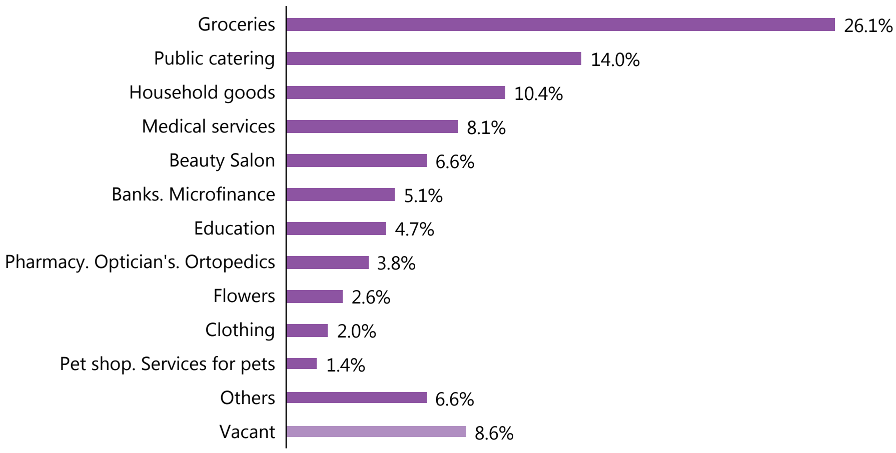
The demand for space in the city centre has been remaining traditionally high during the year. This applies both to the premises, located on transit highways and premises in ground floor areas of new residential complexes, such as Paradny kvartal, Tsarskaya Stolitsa. There is a keen interest to the zones of influence of metro stations in central districts of the city, but there is

Key shopping highways of the city. Structure by tenants' profile



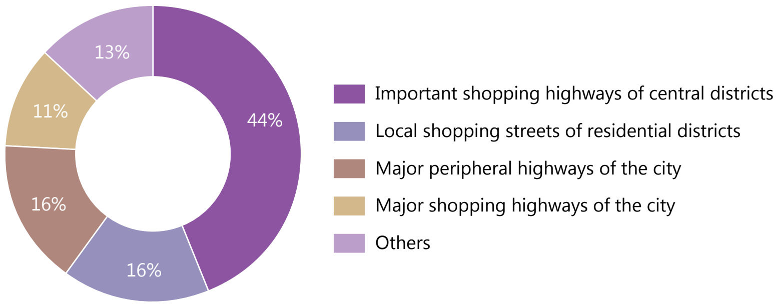
Source: Knight Frank St. Petersburg Research, 2017

Local shopping streets of residential districts. Structure by tenants' profile



Source: Knight Frank St. Petersburg Research, 2017

Tenants' requests by categories of shopping streets

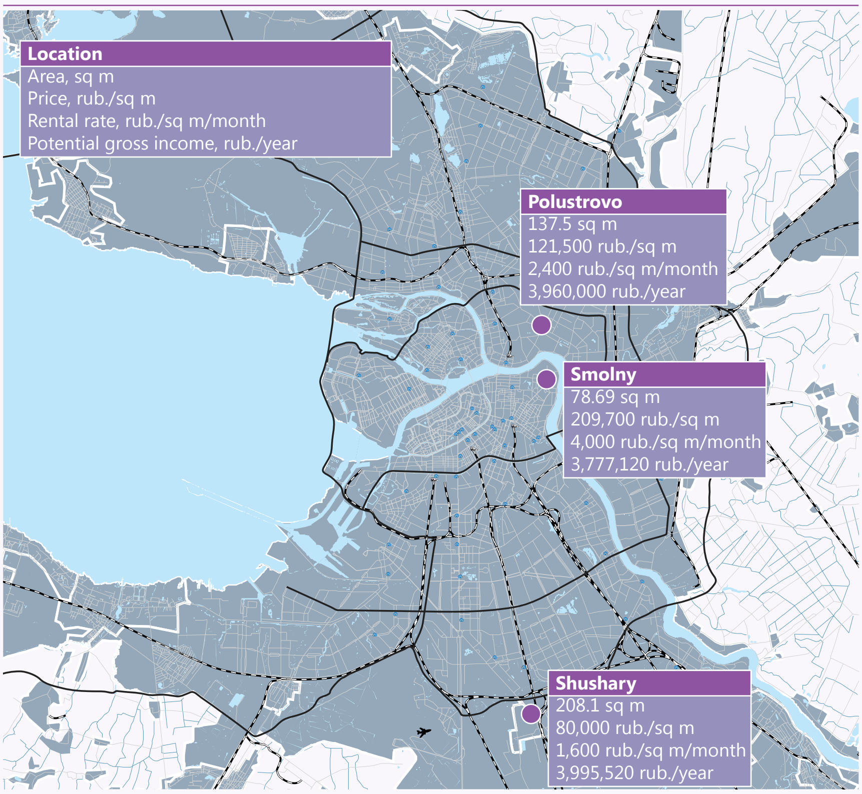


Source: Knight Frank St. Petersburg Research, 2017

Investments in street retail

A significant share of retail space acquisitions was generated with investment objectives in 2016. The demand trend for the acquisition of street retail premises is a balanced approach of investors to the consideration of alternatives in completely different locations of the city and suburbs. The comparison of alternatives demonstrates that investing in street retail premises located on different shopping highways can produce a comparable income. Thus, when comparing the premises in the city centre with premises located in residential districts, we see that the high price of a square meter at the time of purchase is compensated by a more interesting rental rate and better liquidity index subsequently. The consideration of alternative investments shows that the ratio of cash flows from the lease to the cash expenses for asset acquisition (cash-on-cash index) in any of the three considered residential complexes under construction was 23–24% with the initial investment of about 16.5 million rubles.

Investments in premises of street retail format in residential complexes under construction



Source: Knight Frank St. Petersburg Research, 2017

a shortage of supply in these locations due to low rotation and short marketing time if surrendered by tenants.

The demand is noticeably growing for premises of the newly formed large residential areas. When lots of the flats are inhabited, the share of vacant space in ground floor premises in residential complexes is not more than 4–5% in urban projects. Although the specifics of accommodation in locations where domestic demand prevails, many operators of grocery, household goods and public catering highly assess the potential of their location in new housing development.

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