

H1 2023

# Retail Shopping Centers

Russia | Regions

**Table 1**

Key market indicators

Source: Nikoliers

	H1 2020	H1 2021	H1 2022	H1 2023**
<b>Total supply of retail space in Russia, million sq m</b>	28.4	29.2	30	29.8
<b>Commissioned retail space in Russia, thou sq m</b>	218.2	405.2	87.1	77.2
<b>Total supply of retail space in Russian regions, million sq m*</b>	17.2	17.7	18.3	18.1
<b>Retail space commissioned in Russian regions, sq m*</b>	0	313,900	61,632	30,850
<b>Number of opened SCs*</b>	0	6	3	4
<b>Per capita retail space in Russia as a whole, sq m per 1,000 residents</b>	194	200	209	203

\*All cities of Russia, exclusive of Moscow and St. Petersburg

\*\*Starting in Q1 2023, a new methodology for calculating the amount of existing space and per capita retail space (adjusted for the coverage of Moscow's satellite towns) has been used.

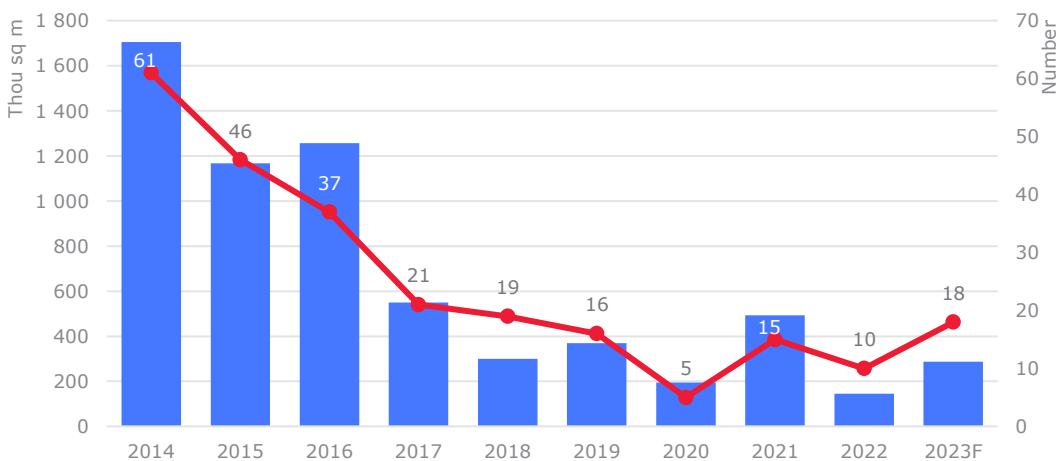
## Supply

By the end of the first half-year 2023 quality retail space commissioned in Russia, including Moscow and St. Petersburg, amounted to 77,200 sq m, of which the capital city accounted for 60%, with only 40% falling to the share of Russian regions, where four neighborhood centers were opened during the initial six months: Shadrinsk Hall with gross leasable area of 13,500 sq m, Torpedo in Nizhny Novgorod (GLA=8,000 sq m), Grani in Novosibirsk (GLA=5,000 sq m), Cosmos in Bryansk (GLA=4,400 sq m). In comparison with the previous year, commissioned retail space has halved. As more facilities are scheduled to be commissioned in the second half of the year, however, commissioned space in Russian regions will total to about 290 thousand sq m by the year's end. In general, regional development of shopping centers remains subdued and the trend for a further increase in the number of neighborhood and community centers developed is expected to continue.

**Chart 1**

Opening of shopping centers in regional cities of Russia (exclusive of Moscow and Saint Petersburg), by space and number, 2014-2024F

Source: Nikoliers



## Demand

The expansion of Russian retailers is in the active stage. Following the exodus of many international operators, domestic brands currently have the opportunity to strengthen their market positions. Many retailers have focused on expanding their assortment matrix, as well as on leasing most interesting vacated premises in key locations. For example, Sela is expanding its range of children's clothes, YOU now offers footwear in addition to garments, while 12 STOREEZ has announced its intention to add homeware to its assortment. Zarina, which previously specialized in womenswear, has announced the launch of its menswear line named ZRN MAN.

In addition to Russian retailers, new foreign players keep on entering the market. In the first half of 2023, sixteen new brands made their way into the Russian market. Turkish brands accounted for 43.7% of new openings, Lebanese brands for 31.2%, Belarussian brands for 12.5%, Estonia and Australia contributing 6.3% of all brands each. The Sports Goods category

accounted for 6.2% (2XU) of total openings, homewares for 18.8% (Swed House, Madame Coco, Karaca Home), the rest falling to the share of the Clothing and Footwear category (LTB, Beymen Club, Loft, Mudo, NetWork, AC&Co, BonBon Lingerie, MAAG, Vilet, DUB, ECRU).

Overall, it can be noted that 23 out of the 66 brands that have declared their intention to enter Russia since the beginning of 2022 have already opened their doors to customers. There is also interest from Iranian and Indian brands, but representatives of these countries are still at the stage of studying and evaluating the Russian market. Meanwhile, the exit of foreign brands from Russia continues, albeit at a slower pace. For example, during the initial six months of 2023, four brands - New Balance, Converse, Michael Kors and Pandora - wound down their operations as mono-brand boutiques and were replaced by multi-brand shops such as Trendzone, NCF, MultiK and PanClub, offering products from the original brands along with other merchandise.

**Table 3**

Selected examples of Russian retailers' expansion in the shopping centers of Russian regions

Source: Nikoliers, official websites of shopping centers and retailers

Melon Fashion Group	Gloria Jeans
Openings in 2023	
<p><b>Sela:</b> Greenwich Shopping and Leisure Center, Ekaterinburg Krasny Kit shopping mall Mytishchi Maxi shopping mall, Arkhangelsk</p> <p><b>Befree:</b> Retail Park No. 1 mall in Tver FORUM mall in Perm (relocation to a new larger facility)</p> <p><b>Love Republic:</b> Murmansk Mall, city of Murmansk Brosco Mall, city of Khabarovsk Kalina Mall, city of Vladivostok</p> <p><b>Zarina:</b> Gallery Voyage mall, city of Tyumen Aura mall, city of Yaroslavl Grad mall, city of Voronezh</p>	<p>Sedanka City mall, Vladivostok Modny Kvartal (Fashion Quarter) mall, Irkutsk Europe City Mall, Volgograd iMall Esplanade, city of Perm Nexty SC, city of Smolensk Festival mall, city of Angarsk</p>
Plans for 2023	
<p>Double the openings of 2022 (in 2022 there were 113 openings)</p>	<p>Open 130 shops in 2023, including relocations to better places</p>

## Retail trade

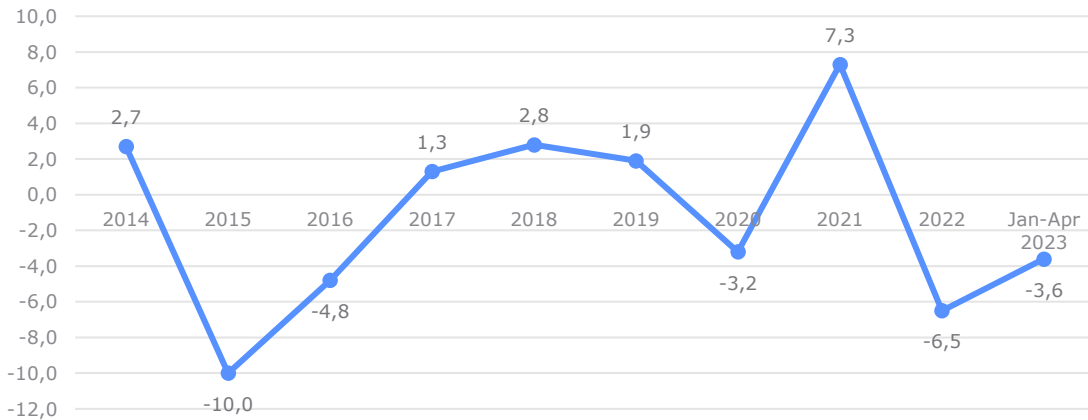
After a steep rise of inflation in 2022 (the annual inflation stood at 11.94% year-on-year), the inflation rate gradually stabilized. In April 2023 inflation sank to 2.3% y/y, down 1.2 p.p. from a month earlier.

According to Rosstat, in the initial four months of 2023 retail trade turnover in Russia amounted to RUB 14,041 billion, or 96.4% compared to the same period of the previous year. Foodstuffs accounted for RUB 6,930.9 billion (49.4% of total retail turnover), and non-foods for RUB 7,110.0 billion (50.6% of total retail turnover). According to the results of Q1 2023, the change in the index of the physical volume of retail trade turnover stood at -7.3 per cent as compared to a corresponding period of the previous year. The decrease in the index was due to the effect of last year's high base, when consumers, amid the exodus of international brands, were seeking to replenish their inventories in store. In January-April 2023, the index slowed down to -3.6 p.p. year-on-year. According to the Ministry of Economic Development's updated macro forecast, retail turnover is expected to accelerate to 5.3% year-on-year, with an average annual growth rate of around 3.5% in 2024-2026.

### Chart 2

Dynamics of retail turnover in Russia, 2014 – Q1 2023  
in comparable prices, % to a respective period of the previous year

Source: Rosstat



Despite the turbulence in 2022, real disposable income of the population remained almost unchanged in Q1 2023 year-on-year, the growth amounting to 0.1%. We expect the market to demonstrate positive dynamics as it gets adapted to the new reality.

### Chart 3

Dynamics of the Russian population's real disposable monetary income, 2019 – Q1 2023.

Source: Rosstat



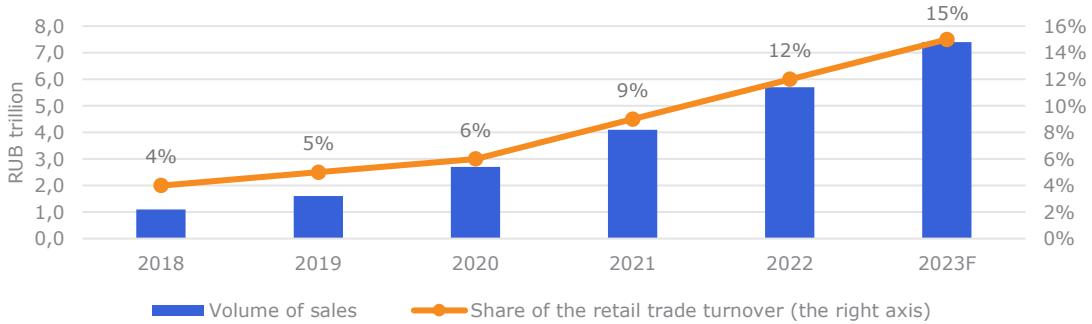


## Online retail

**Chart 4**

The share of Internet sales in Russia's total retail turnover

Source: Data Insight



According to Data Insight, online sales in Russia in 2022 stood at RUB 5.7 trillion, or 12% of total retail turnover. The average annual growth rate for e-commerce over the past two years is 3 p.p. The trend is expected to continue this year. However, the volume of cross-border trade has declined significantly. According to AKIT, while the share of cross-border trade was 29% in 2019, it had plummeted to 4% by the end of 2022. Difficulties with monetary transactions and logistics led to e-commerce being refocused towards the local market.

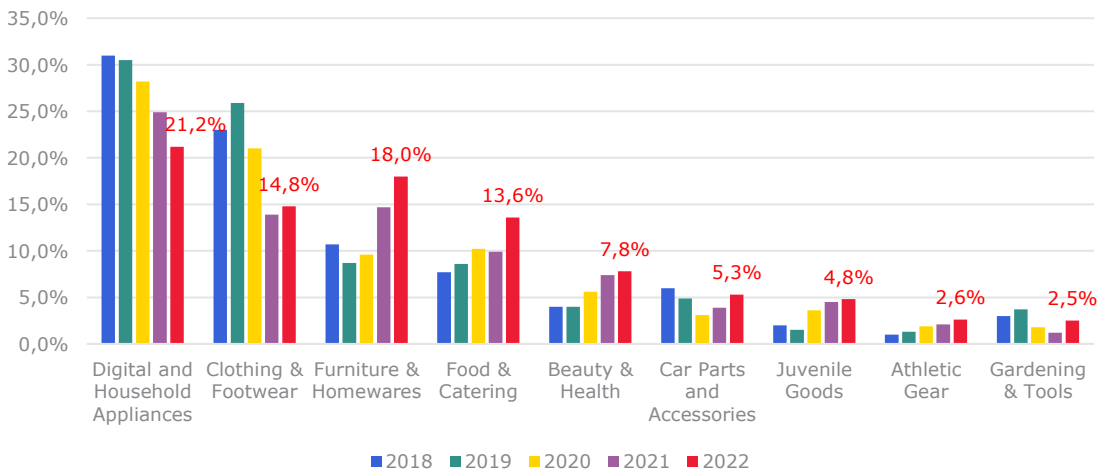
Also in recent years, e-commerce has grown rapidly in the regions. The e-commerce segment has grown almost threefold, and the existing dynamics have enabled Russia to become a leader among other countries in terms of FMCG online sales growth rates. Two years ago Moscow accounted for more than 25% of the online orders market, but now that figure has sunk to 19.4% due to the active development of e-commerce in the regions – for example, the online retail growth rates in the Moscow Region stood at 10.7%, in St. Petersburg at 7%, in Krasnodar Territory at 4.7%, in Rostov Region at 2.6%, in Sverdlovsk Region at 2.6%, not to mention other regions where online shopping was booming as well. The breakdown by product categories has also changed significantly over the past five years. More and more Russians started buying homewares, groceries, including ready-made food, health and beauty products, juvenile products and athletic gear online. The shares of Furniture and Homewares (+7.3 p.p.), Food and Catering (+5.9 p.p.) have grown most dramatically.

That being said, the shares of Digital and Household Appliances as well as Clothing and Footwear decreased in the midst of the expanding range of purchased goods. It should be noted that, in absolute terms, all of the above categories of goods demonstrated upswing, but due to a slowdown in the growth rate of individual categories, there was a redistribution of their market shares.

**Chart 5**

Breakdown by merchandise categories in the local market (in money terms)

Source: AKIT, Sberbank





## Key trends

### Increased interaction with the customer on the part of shopping centers

The role of marketing and commercial management of shopping facilities has grown more than ever before. Today, shopping malls are not just shopping sanctuaries, but also event centers with a comfortable environment and educational spaces. Mall management companies are striving to use different types of motivation for visitors and create a positive customer experience, both inside and outside the mall. Personalizing the offer to maximize customer satisfaction is a key driver of retail's strength.

### Consumer behavior

With the market adapting to structural changes and inflation being stabilized during the 4 months of 2023 (down 9.63 p.p. to 2.3% YoY), consumer activity has picked up. After a long period of austerity in the previous year, consumer demand for emotional substitution spending, the so-called "lipstick effect," only in a broader sense, is getting increasingly prominent, while the entry of brands such as MAAG, Vilet, DUB and ECRU to the market has also contributed to increased traffic in shopping centers.

### Retailers focused on enhancing the loyalty of shoppers

The "old new brands" seek to change the established habits and beliefs of consumers, who were previously focused on fashion market leaders such as H&M, Inditex, Uniqlo and others. Claiming to replace the exiting companies in the minds of consumers, retailers pay their attention not only to the products on offer, but also to the shop exterior, its design, style and service. More and more retailers are reimagining their venues, reopening them in new, modern formats.

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