



# RETAIL

Position Paper

22 March 2022



# MARKET CONDITIONS



Outlook reflects our position at the current date. It is based on the current market conditions which are highly variable nowadays. The scenario presented below is moderately positive including assumption that the governmental reaction allows to keep market structures in the local economy at the background of the persisting pressure of sanctions.

By the end of March, new configuration of the Russian economy is formed. Protracted military operation in Ukraine suggests the economy will shift from mobilization to prolonged resistance.

Key rate is a basic indicator showing general situation in the economy. All forecasts (GDP, CPI, mortgage market, etc.) are now based on the 20%-key rate. The Central Bank kept the indicator unchanged on March, 18, the next review is scheduled for April, 29.

The consensus position of GDP fall by 10% does not mean that all industries will fall evenly. Moreover, some sectors will lose 70-80% (e.g., financial, business services) while others may grow 30-50% (e.g., production of raw materials and goods). The most attractive business for the mid-term is a food sector, from agricultural products to retail.

Some businessmen and officials are optimistic about import and business substitution opportunities arising with exit of many Western companies. This will be the main investment idea for the retail sector in the mid-term.

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# RETAIL MARKET. KEY INDICATORS

## MOSCOW

JAN - MARCH 2022

5.93 MN SQM

Total Quality Stock

27.5 '000 SQM

New Construction (Retail Properties with GLA of more than 15,000 sq. m)

11 %

Vacancy Rate in Quality Shopping Centers

## MOSCOW

DECEMBER 2022

6.02 MN SQM

Total Quality Stock

90 '000 SQM

New Construction (Retail Properties with GLA of more than 15,000 sq. m)

30 %

Vacancy Rate in Quality Shopping Centers



Public ideology translates rejection of consumer society values. Additionally, goods' stocks will shrink, and real disposable income will decrease. As a result, demand for retail and entertainment will fall. Retail trade turnover will decrease by 7-10% in 2022, slow down of a negative dynamics will follow in the mid-term.



Shopping centers is the riskiest sector of the retail real estate. The concepts were oriented on the consumer economy. One of the recommendations for landlords is to consider archaic concepts with small blocks for private entrepreneurs and a "boutique zone" for some brands.



Mall Index (footfall in shopping centers):

+0.5% March 2022 vs March 2021

-20% March 2022 vs March 2019

(Data source: Focus, calculations: Cushman & Wakefield)

## Consumer Market

Sharp inflation and unemployment growth, real disposable income decrease, and high debt load will lead to the squeeze of the consumer market. Deficit in some goods' categories followed by substitution from other producers will also lead to decrease of consumption – people will need time for adaptation.

The mortgage market was actively growing during the last 5 years with real booming in 2020 additionally to consumer credits. Repayments will cover the biggest part of the consumer spending in the short-term and will lead to underexpenditures for retail.

As a result, we will see a deep fall in consumer sales in 2022 followed by a slowdown in the negative dynamics in the mid-term.

## Macroeconomic Survey of the Bank of Russia as of March 2022



	2020	2021	F2022	F2023	F2024
CPI (%, Dec to Dec of the previous year)	4.9	8.4	20	8	4.8
Key rate (% per annum, average for the year)	5.1	5.8	18.9	14.1	7.8
GDP (%, YoY)	-2.7	4.7	-8	1	1.5
Nominal wages (%, YoY)	7.3	9	9.5	9.5	6.8

## The Center of Macroeconomic Analysis and Short-Term Forecasting as of March 2022



	2020	2021	F2022	F2023	F2024
Consumer Sales (%, y-o-y)	-3.2	7.3	-7.2 – -7.5	-3.5 – -3.7	-0.3 – 0.0
Real Wages (%, y-o-y)	3.8	2.9	-4.0 – -4.2	-1.0 – -1.2	1.0 – 1.3
Real Disposable Income (%, y-o-y)	-2.0	3.1	-7.0 – -7.2	-1.3 – -1.6	1.3 – 1.5
Unemployment Rate, % from the workforce (%, y-o-y)	5.8	4.8	7.0 – 7.3	7.8 – 8.2	7.7 – 8.0

# CONSUMER TRENDS

New economic reality will change trends in the retail sector and consumer market noticeably. Some trends will get drivers for further development, other will not be applicable anymore.

Here we consider the key trends and potential changes for the market.

## CONSCIOUS CONSUMPTION, SAVING

- will become the key consumer pattern for several years: priority for the economy stores and discounters, search for the best price offer and substitution for expensive goods.

**E-COMMERCE** - is now influenced by two controversial trends: decrease of consumer capacity and search for best price offer. The first will limit rapid growth, while the second will support the market, online platforms suggest wide range of goods in different price segments. Online sales are expected to grow, but at a low pace. The key risk factor is cybersecurity.

**SAVING TIME, CONVENIENCE** - is not a priority anymore. Decrease in real income will make consumers spend more time and effort for best offer search. However, talking about retail formats which has been recently developing as an answer for this trend will still be demanded - neighborhood shopping centers, service retail at transport hubs, street retail in residential complexes.

Large and mid-size properties will have to re-think concepts, to deal with vacant areas and update functions.

**OMNICHANNEL RETAIL** - business optimization and shortage of financing will force retailers to choose one preferential sales channel.

## ENTERTAINMENT, EXPERIENCE («SHOPPING=EMOTION»)

- shopping will be very functional. Marketing and promotion will be the first options of saving for landlords. In the short-term entertainment operators will see turnover decrease - customers will return to basic affordable online options which were popular during the pandemic. In the mid-term, children entertainment may recover.

## HEALTHY LIFESTYLE, SPORT-

medtail format (medical centers in retail schemes for express health check) is not on the agenda anymore.

Healthy lifestyle will be diminishing due to lower standard of living and unavailability and inaccessibility of healthy products.

Sport is still important, but not a priority. So economical sport formats will be in demand.

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