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More Foreign Retailers Coming to Russia Despite Economic Crisis

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Since the start of the year, 32 foreign brands have opened first stores in the country.

A dramatic decline in consumer spending in recession-hit Russia has not scared foreign retailers away from starting new business in the country, research published on Thursday found.

In the three months from July to September, 14 new foreign retailers have set up shop in Russia — two more than the number of newcomers in the same period last year — according to a report by real estate consultancy Knight Frank.

Since the start of the year, 32 foreign brands have opened first stores in the country, including Italian children's clothing retailer Bimbus, French cosmetics brand Ulric de Varens and German sports retailer Stellasport, the report said.

Two-thirds of the these new brands belong to the middle price segment, according to the

report.

They are entering the market as high inflation and negative wage growth force Russians to slash their shopping budgets. Retail sales were 9.1 percent lower in August than in the same month last year, according to the Rosstat state statistics service.

Rather than banking on rapid sales, Knight Frank said foreign retailers were tempted to Russia by more lucrative conditions. Rental rates have dropped by 20-40 percent over the past year and most malls have switched to turnover rent leases, where the rent payable is not fixed but influenced by the tenant's actual turnover, according to Yulia Sokolova, director of shopping center leasing at Knight Frank.

The Moscow market also has large amounts of high quality vacant retail space, she said in the report. According to the RBC newspaper, vacancy rates in some Moscow shopping centers could exceed 10 percent in the third quarter of this year.

Knight Frank said it expected at least 12 more new foreign brands to open by the end of 2015, including KidZania, the famous children's edutainment chain.

It is not all good news however: Russia's new economic reality — the economy is set to contract by about 4 percent this year and shrink again in 2016 — has forced some retailers to leave the country or change their development plans.

According to Knight Frank, eight foreign brands have quit Russia since the beginning of the year.

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