The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Idle Moscow Stores Reveal Emerging Economic Scars

Shop vacancy rates in the Russian capital are set to hit a record high, and the end of the year will see a wave of bankruptcies in Russia’s services sector.

By [Jake Cordell]

July 07, 2020

More than 11% of premises on Moscow's prime shopping streets are now vacant. **Pavel Kassin / TASS**

A jump in the number of vacated shops and retail spaces in central Moscow following the end of the coronavirus lockdown is the latest sign of the economic damage the pandemic has inflicted on Russia’s businesses.

Vacancy rates on some of Moscow’s prime shopping streets have risen to their highest levels in three years, research by real estate firm JLL has shown. Moreover, the number of empty properties is expected to climb drastically over the next 12 months.

Around one in every eight shops on streets such as Moscow's Arbat, Tverskaya and Nikolskaya are now vacant — a jump of a third compared to the end of 2019.

"The economic downturn, falling incomes and restrictive measures have led to the closure of shops and restaurants," said Vladislav Fadeev, head of research at JLL in Russia. "The increase in vacant premises will continue, and in the next three to four quarters we expect it to reach record levels."

While retail shops and restaurants were the most likely businesses to close during the lockdown, banks also shut a number of central Moscow branches during the quarantine, JLL added.

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Empty shops and shuttered restaurants in city centers will be some of the most visible of the economic scars caused by the coronavirus pandemic in Russia. While the government is trying to move on from the crisis, Russian businesses and households are set to be worse off for at least the next 18 months.

Early indications show that despite the lifting of business restrictions throughout May and June, economic life is not returning with any haste — particularly for Russia's service sector.

"Even with permission to start their activities, service businesses will experience significant difficulties," warned Georgy Ostapkovich, director of the Center for Business Tendencies Studies at the Higher School of Economics (HSE), citing declining household incomes, sustained pressure on wages, weaker demand and long-term changes to consumer behavior and spending patterns.

In Moscow, almost all forced closures have now been lifted. Stores are fully open, restaurants and cafes can welcome diners inside, and gyms, hairdressers and beauty salons in the capital are also open for business.

But spending data shows that while customers have started to return, pent-up demand for haircuts, workouts and chef-prepared meals has not translated into a boom. Sberbank found that spending on services is still down 20% compared to last year, with outlays at cafes, restaurants and bars running a third lower.

The Sberbank data also demonstrated a potentially sustained shift in consumption habits away from services. While restaurants and bars suffer, grocery stores are still seeing higher sales than last year — a sign of more people cooking at home, while spending at clothes retailers and hobby shops has also bounced back strongly following the relaxation of restrictions — up 15% and 25% compared to last year, respectively.

Business activity at Russia's small and medium-sized businesses on the whole has also yet to recover, down 21% compared to the pre-coronavirus era. While they felt left to fend for themselves amid the lockdown period of the pandemic, coming out of the crisis is also proving tricky for Russia's smaller firms, forced to comply with new health and safety guidelines which can include costly reformatting of premises, particularly for restaurants and bars.

Vasilisa Volkova, cofounder of Sidr Group, which runs a handful of upmarket bars in central Moscow, put the cost associated with the new regime at more than 10 million rubles ($130,000) — a loss which comes after three months of zero income.

Despite what she says are decent numbers of customers coming through the door, Volkova doesn't expect to be back at pre-crisis income levels until the end of the year, and said her premises which were more reliant on tourists are suffering.

She is also trying to build some kind of financial cushion to help prepare for a potential second wave of the coronavirus, as is Alexandra Gerasimova, cofounder of fitness startup Fitmost.

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"Any company, including a startup, should have a cash reserve," she told The Moscow Times. "For example, in February, we spent some extra funds on testing new channels. Now I understand that if we had saved that money, we would have been much less nervous during the crisis situation."

This potential financial conservatism among the businesses hit hardest by the crisis could become another drag on Russia's economic recovery if the psychological scars of the pandemic discourage smaller firms back from expanding or investing at the same time households are also holding back.

A survey of services businesses by HSE found that "business owners do not expect demand to return in the near future, and are preparing to reduce both the volume of business and the number of employees."

The economic costs of the pandemic are expected to continue revealing themselves throughout the rest of the year, experts say. Now just over 100 days since the start of Russia's quarantine, a particular crunch point will come as more firms fall 90 days behind in their loan repayments, creditors begin to call in debts and a government-introduced temporary moratorium on bankruptcy ends in October.

"As soon as the moratorium ends, a domino effect will begin," Alexander Sinitsyn, head of the Center for Strategic Research in Moscow told Bloomberg. "Companies will go one after the other."

"It is almost certain that 20-25% of all service organizations will be forced to default or start bankruptcy proceedings," HSE's Ostapkovich said.

"Basically, financially weak players, with insignificant capitalization and weak management, whose business models no longer correspond to the new reality and the new model of consumer behavior, and who are operating in low-income regions of the country, will go bankrupt."

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