

2014

# WAREHOUSE MARKET REPORT

Saint Petersburg



## HIGHLIGHTS

In 2014, about 400 thousand sq m of high-quality warehouse space were delivered, increasing the total supply by 18%.

By the end of 2014, the total market volume for high-quality warehouse complexes in St. Petersburg and its suburbs has exceeded 2.5 million sq m.

Despite the record-high delivery volume, no significant growth in vacancy rates has occurred: the market average was 6.2%.

Most developers and warehouse owners had to switch their lease currency to ruble.

2014 signified the turning point for built-to-suit format: this market segment accounted for approximately 45% of all transactions.

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6 companies (3 of which are retailers) at a time have announced plans to build logistics centers in the industrial park "A Plus Park Shushary". All these facilities will be delivered in built-to-suit (construction for the customer) format. The total area of facilities planned for inclusion in the stock of the industrial park will be about 140 thousand sq m.



## Key indicators. Dynamics

Indicator	Class A	Class B	Dynamics*	
Total high-quality stock volume, thousand sq m	2,552		▲ +18%	
including, thousand sq m	1,579	973	▲ +29%	▲ +4%
Total stock volume of leased high-quality warehouses, thousand sq m	1,431		▲ +21%	
including, thousand sq m	1,061	370	▲ +26%	▲ +9%
Vacant supply stock volume, thousand sq m	137	21	▲ 2.3 times	▲ 3.2 times
Delivered in 2014, thousand sq m	396		▲ 2.7 times	
including, thousand sq m	355	41	▲ 2.9 times	▲ +73%
Leasable high-quality space net take-up, thousand sq m	303		▲ 3 times	
Vacancy rate, %	8.7	2.1	▲ +3.9 p. p.	▲ +1.4 p. p.
Asking lease rates**, rub./sq m/month	550–650	400–500	▲ +9%	▼ -5%

\* Compared to the end of 2013

\*\* All-inclusive

Source: Knight Frank St. Petersburg Research, 2015

## Supply

2014 has set the record in terms of the total amount of high-quality warehouse space delivery over the last 6 years period: 396 thousand sq m of warehouse space, 63% of which are intended for lease, were delivered this year.

Thus, the total stock volume of high-quality warehouse market in St. Petersburg and

its suburbs has exceeded 2.5 million sq m. The record figures of delivered warehouse space in 2014, have led to the reduction of operational supply shortage that persisted on the market for the past 3 years. By the end of 2014, about 160 thousand sq m of finished high-quality warehouse space on the market remained vacant.



Mikhail Tunin

Head of the industrial and warehouse real estate and land department  
Knight Frank St. Petersburg

"Over the past year, we have witnessed record levels of delivery and take-up. The year was rich in high-quality modern facilities and landmark major deals. The latter is largely due to the merits of consultants, with whose assistance more than 85% of all deals on the market were signed. And of course, Knight Frank team has a lot to be proud of because about 25% of the deals were signed with our assistance.

2014 has shown that in the current economic situation retailers (especially food sector) and distributors have the greatest potential in consumption of warehouse space. In our opinion, it is exactly they who will be the main consumers of warehouse space in the short and medium term.

In this case, our experience with the retailers revealed that they often face many complex issues requiring costly solutions in conversion of standard dry warehouses into customized format that would suit their needs. That is why, it is the retail chains that were the first to order facilities built according to the requested specifications. This has become the main format on the market: today, 80% of warehouse demand from retailers is exactly in build-to-suit format. This format is convenient for both parties: the operator receives a facility that best suits their needs, while the developer creates a product, knowing in advance, that there is demand for it. The future of the market is with this format, which speaks for the beginning of transition to a completely new level of quality."

## Delivery, take-up and vacancy rate dynamics

The total amount of warehouse space delivery in 2014 has more than triply exceeded the annual average over the previous 5 years and is 17% ahead of the figures for the same period during the "pre-recession" year of 2007



Source: Knight Frank St. Petersburg Research, 2015

## Key facilities delivered in 2014

Name	Location	Class	Total area, sq m	Developer
Armada Park (1 <sup>st</sup> stage)	industrial zone Shushary, Moskovskoe Hwy	A	78,900	Adamant Holding
Osinovaya Roshcha (3 <sup>rd</sup> stage)	Pargolovo, Vyborgskoe Hwy	A	52,000	Sterkh GC
Distribution center Magnit	Moskovskoe Hwy	A	50,800	Tander CJSC
PNK KAD (1 <sup>st</sup> stage)	Sofiyskaya St	A	43,400	PNK Group
Logistics park Troitskiy (3 <sup>rd</sup> stage)	295 Obukhovskoy oborony Ave	A	43,300	Resolute Asset Management
STK (2 <sup>nd</sup> stage)	Bugry	B	27,000	InvestBugry LLC
Admiral	industrial zone Gorelovo, Volkhonskoe Hwy	A	26,700	Logistics group Admiral-STV

Source: Knight Frank St. Petersburg Research, 2015

## Demand

The demand for high-quality warehouse space in 2014 remained consistently high despite the negative processes taking place in the country's economy as a whole. The total transactions volume concluded on the market in 2014 amounted to more than 320 thousand sq m. Furthermore, about 45% of leased or sold space on the market has been delivered in built-to-suit format (construction tailored for a specific customer), which is still present on the market as small individual transactions.

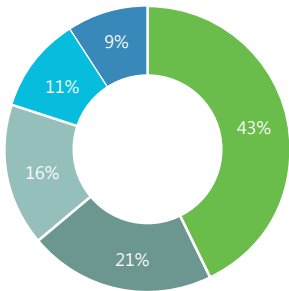
The net take-up volume on the market of high-quality warehouse facilities in 2014 amounted to 303 thousand sq m, which is 3 times the figure of 2013 and more than twice the amount of 2012.

Despite the record delivery volume, high activity of tenants and buyers has caused substantial growth of take-up volume, preventing significant growth in vacancy rate. By the end of 2014, only about 6% of all high-quality warehouses on the market remained vacant.

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## Tenant mix structure

In 2014, retail operators exhibited the highest activity on the market: theirs are 43% of all lease/purchase transactions of high-quality warehouse space in the region for the year. The second place belongs to manufacturing companies



- Retailers
- Manufacturing companies
- Logistics providers
- Distribution companies
- Others

Source: Knight Frank St. Petersburg Research, 2015

## Commercial terms

Severe rate fluctuations of the national currency observed in H2 2014 resulted in a situation where the majority of developers and proprietors of high-quality warehouses were forced to switch their lease rates to ruble under tenants' pressure. Furthermore, ruble rates on the market are nominated according to the "all-inclusive" principle.

At the end of 2014, lease rates offers were in the range of 550–650 rub./sq m/month (all-inclusive) for Class A and 400–500 rub./sq m/month for Class B.

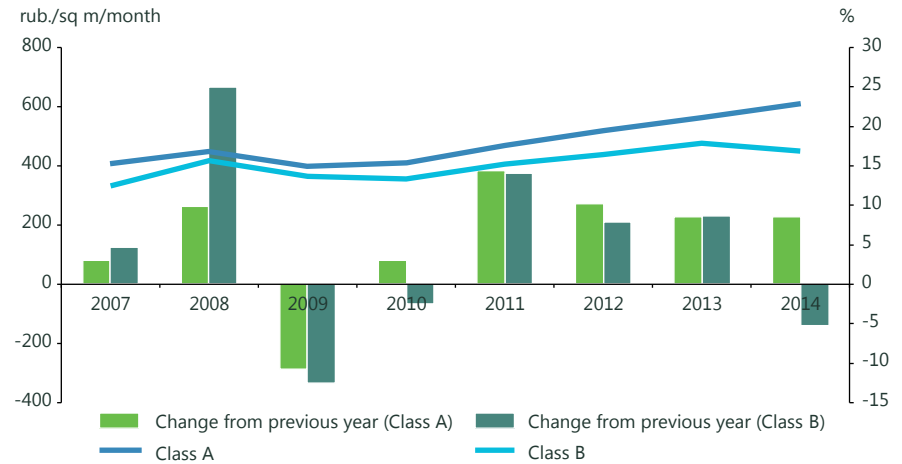
## Forecast

The majority of facilities that are highlights of the market today were delivered in the past year. According to our estimates, in 2015, the delivery volume of new facilities will not exceed 150–170 thousand sq m. Moreover, the area of facilities intended for lease will be much smaller.

Overall, in case negative processes in the economy will be evened-out, we do not expect a serious drop in demand. However, take-up rate will slow down somewhat due to the lack of sufficient number of available offers.

## Rental rates dynamics

Class A warehouse lease rates in the national currency have grown by 9% in 2014 comparing to the rates at the end of 2013



Source: Knight Frank St. Petersburg Research, 2015



Currently available space can be taken up already by the middle of 2015. Thus, shortage of available and under construction (short-term) leasable supply of high-quality warehouse space in the region is expected to strengthen by the end of 2015. In turn, this will lead to further growth in demand

for built-to-suit format projects and cause increase in the number of 3PL (third party-managed storage) format transactions.

We also do not expect a significant variation to base lease rates denominated in the national currency.

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