

2015 WAREHOUSE MARKET REPORT

Saint Petersburg



HIGHLIGHTS

182 thousand sq m of quality warehouse space were commissioned in 2015 increasing the total supply by 7%. The total volume of quality warehouse complexes in St. Petersburg and its suburbs exceeded 2.8 million sq m at the end of 2015.

The vacancy rate is stable and is equal to 6.1% for the whole market. The figure decreased by 2 p. p. during the year and amounted to 10.5% in the segment of speculative warehouses. The volume of vacant space exceeded 170 thousand sq m.

Rental rates in the market of quality warehouse space are denominated in rubles started from 2014. Due to the drastic weakening of the national currency the dollar equivalent of the rate was seriously reduced in 2015 and amounted to 58 \$/sq m/year for Class A and 38 \$/sq m/year for Class B (triple net).

The annual net take-up decreased by one-third if compared to 2014 – up to 188 thousand sq m. However, this index is much higher than in 2012–2013.



Mikhail Tyunin

Head of Industrial Warehouse and Land Department,
Knight Frank St. Petersburg

"In the coming 2016 the alignment of forces will be stable in the lease market. Also, the demand for warehouse space will survive and its main drivers will remain retail companies and distributors. There is no reason to reduce their share in the structure of demand, and more than 50% of all pending transactions will be completed by players from this sector. At the same time it is expected that the following industrial companies will be most active resulting in the increase of transaction volume: industry of defense sector, furniture production, metalworking, machine tool building. In addition, I believe that the number of purchase transactions of ready-made properties under built-to-suit scheme will increase significantly and will reach about 40% of the total area of transactions".

WAREHOUSE MARKET REPORT SAINT PETERSBURG

Key indicators. Dynamics*

Indicator	Class A	Class B	Dynamics	
Total quality stock of warehouse complexes, thousand sq m	2,817		▲ +7%	
including, thousand sq m	1,768	1,049	▲ +8%	▲ +6%
Total quality stock of warehouse complexes for lease, thousand sq m	1,561		▲ +6%	
including, thousand sq m	1,125	436	▲ +5%	▲ +10%
Vacant supply, thousand sq m	110	62	▼ -21%	▲ +62%
New delivery in 2015, thousand sq m	182		▼ -54%	
including, thousand sq m	126	56	▼ -64%	▲ +35%
Net take-up of quality space, thousand sq m	188		▼ -33%	
Vacancy rate, %	6.2	5.9	▼ -2,4 p. p.	▲ +2 p. p.
Asking rental rates**, rub./sq m/month	450–600	300–490	▼ -15%	▼ -7%

* If compared with the end of 2014

** Including VAT and operating expenses

Source: Knight Frank St. Petersburg Research, 2016

Key events

Two noticeable purchase transactions were completed in the industrial market. A Plus Development acquired 5 ha site in Kolpino with industrial buildings of approximately 8,000 sq m from the Finnish Metsa Group. Moreover, the successful purchase of the asset complex of 28,500 sq m in the center of St. Petersburg was completed with an assistance of Knight Frank Saint-Petersburg. Scania bus factory was accommodated at this land plot previously.

Several properties were put into operation in A Plus Park Shushary, they were constructed under built-to-suit scheme. The area of these Class A warehouses constituted half of the total delivery volume in St. Petersburg.

The construction of Mebelniy technopark industrial and warehouse complex at Marshala Blyukhera Avenue was completed, some of its facilities were introduced to the lease and purchase market of quality warehouse real estate.

Supply

Few new properties were added to the market during 2015, and the bulk of quality warehouse real estate was delivered in Q4 2015. The area of quality facilities put into operation is lower than in 2014, but significantly higher than the same indices for the period of 2009–2013 when 115–165 thousand sq m were introduced to the market annually. 182 thousand sq m of warehouses were delivered in 2015, 51% of which were intended for lease. In turn, half of the space entering the market was already occupied, so the delivery did not have a substantial impact on the vacancy rate.

The total volume of quality warehouse space in St. Petersburg and its suburbs exceeded 2.8 million sq m by the end of the year.

The registered volume added to the market led to stability in the vacancy rate level while maintaining a sustainable demand for quality warehouse real estate. The vacancy rate for Class A was 6.2% and in Class B – 5.9% at the end of the year. The supply of vacant quality warehouse space was estimated at 172 thousand sq m at the end of 2015, which is 3% lower than in 2014.

Dynamics of vacant space

The supply of vacant space in Class A is reduced, while it demonstrates strong growth in Class B



Source: Knight Frank St. Petersburg Research, 2016

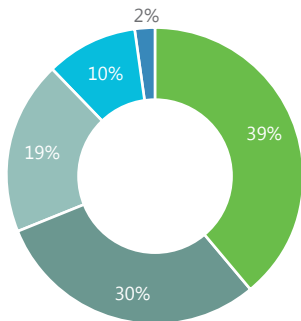
Key properties delivered in 2015

Project name	Location	Class	Total area, sq m	Developer
Multifunctional complex of wholesale trade	Shushary Industrial Zone, bld. 2, 179, Moscow highway, (A + Park Shushary)	A	36,800	A Plus Development
X5 Retail Group	Shushary Industrial Zone, bld. 4, 181, Moscow highway, (A + Park Shushary)	A	33,500	A Plus Development
ETM	Shushary Industrial Zone, bld. 2, 12, Lensovetskaya Road, (A + Park Shushary)	A	20,000	ETM Trading House
B Logistic	Shushary Industrial Zone, bld. 3, 19, Moscow highway	A	15,000	B Logistic
Terra Logistica	254, Ligovskiy Avenue	B	12,622	Ligovskoe
Spectr	bld. 2, 13, Kushelevskaya Road	B	11,900	Spectr
Orion	171, Gorskoe Highway, Levashovo village	B	8,400	Orion

Source: Knight Frank St. Petersburg Research, 2016

Tenant mix

The companies of retail profile lead the way in the lease of quality warehouse space



- Distribution
- Retail
- Manufacturing
- Logistics
- Other

Source: Knight Frank St. Petersburg Research, 2016

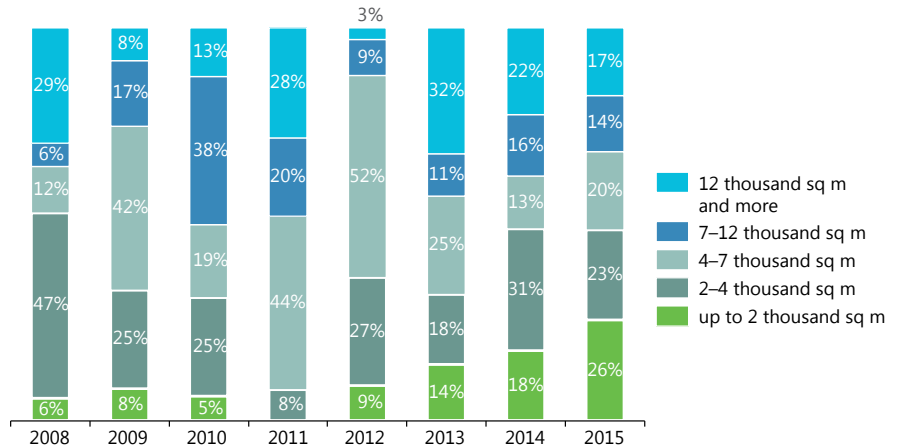
Demand

The total volume of transactions completed throughout 2015 was more than 240 thousand sq m. The reduction of average leasable warehouse space together with some decrease in the number of transactions were registered: it is estimated at 6.6 thousand sq m in 2015, which is 13% below the level of 2014. However, the average leasable area in Class A facilities exceeded the level of 2014 and reached 8.5 thousand sq m. The demand on the part of small businesses was focused on Class B warehouses, and we witnessed that the popularity growth for the units of up to 2 thousand sq m is stable.

The volume of net take-up in the market of quality warehouse properties amounted to 188 thousand sq m in 2015, which is below the record level of 2014, but significantly higher than in 2012–2013. The share of space leased by retail trade and distribution companies is close to 70%. The trend holds that there is an increasing activity of industrial companies in the segment of the lease of warehouse space. At the same time there are some purchase transactions of industrial complexes known. Thus, the purchase transaction of the industrial site of Scania bus factory was completed in 2015.

Distribution of deals by transaction size

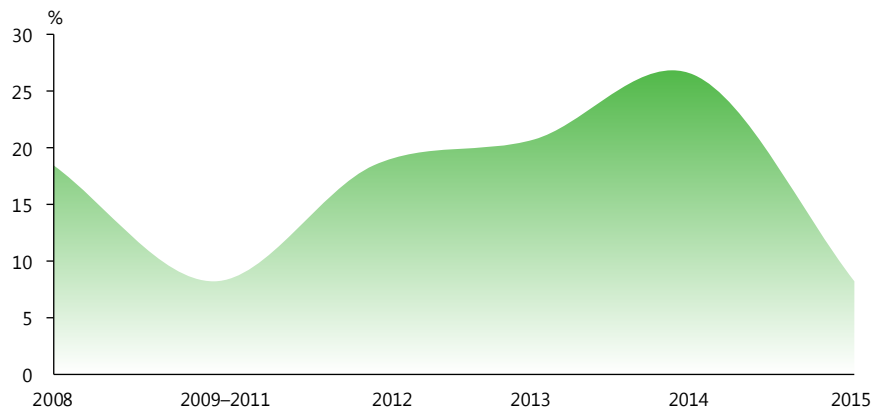
About half of the tenants occupied the premises of more than 4 thousand sq m in the structure of transactions in 2015



Source: Knight Frank St. Petersburg Research, 2016

Distribution of transactions in industrial parks

The growing interest of residents to accommodate in industrial parks was observed in 2012–2014. Thereafter, there was a decline in activity on the part of representatives of large-scale industry and the shift in demand to the segment of small units or fitted-out premises



Source: Knight Frank St. Petersburg Research, 2016

Several purchase transactions of land plots with total area of more than 30 hectares were concluded during the year, they occupied in industrial parks located near St. Petersburg. Despite the drop in demand for land plots in industrial parks, especially on the part of foreign investors, the results of 2015 were comparable to consolidated figures of 2009–2011. Most of the companies, which concluded transactions in industrial parks in 2015, are planning to build warehouse facilities, including the low-temperature warehouses.

The analysis of requests received by Knight Frank in 2015 shows that the main demand for the lease of industrial purpose premises

was formed by already functioning companies, the main motive of their search was the qualitative improvement of accommodation conditions. The overwhelming number of requests consisted of the task to find a land plot located more conveniently or to expand the area occupied. The structure of requests demonstrated that about half of potential tenants wanted to find an area up to 700 sq m: the companies of retail profile were dominant in this range, and often the premises were searched to organize a small warehouse. The companies associated with manufacture or processing of materials often focused on larger premises (up to 2,000 sq m).

Commercial terms

The rental rates in the market of quality warehouse space are denominated in rubles started from 2014. Due to the drastic weakening of the national currency the dollar equivalent of the rate was seriously reduced in 2015 and amounted to 58 \$/sq m/year for Class A and 38 \$/sq m/year for Class B (triple net).

The rental rates for industrial purpose premises located within the city mostly vary in the range of 200–400 rub./sq m/month (including VAT and utilities).

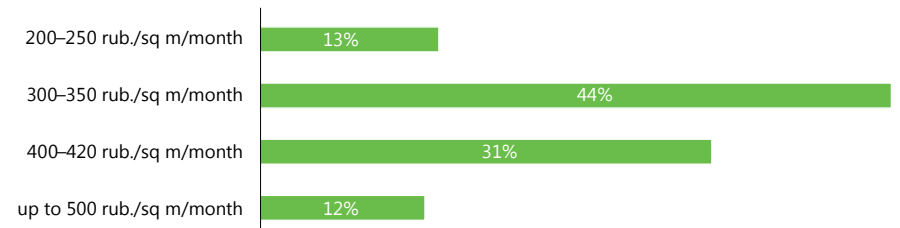
Forecast

A significant part of large warehouse, industrial and warehouse facilities were put into operation in 2015, but a number of properties is still under active or final stage of construction. In case of moderate conservative scenario considering the completion of construction which overcame the initial construction stage, the figure will be around 190–200 thousand sq m in 2016. And the area of the premises intended for lease will not exceed 50% of the expected delivery index.

The current commercial terms attractive to tenants of the lease market will continue to support the demand at the level of 30–40 thousand sq m per quarter. Thus, the space vacant at the beginning of the year can be taken up by the end of the year.

Rental rates for industrial premises

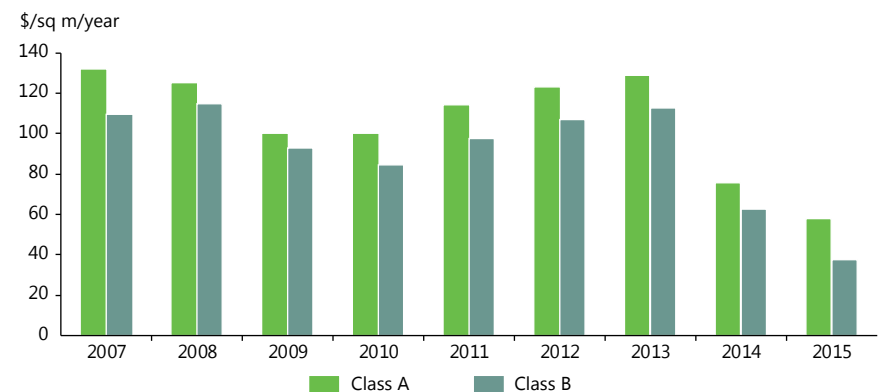
The requests with the budget of 300–350 rub./sq m/month (including VAT and operating expenses) prevail in the structure of demand for industrial purpose premises



Source: Knight Frank St. Petersburg Research, 2016

Rental rates dynamics

Rental rates for warehouse space displayed reduction



Source: Knight Frank St. Petersburg Research, 2016

In the segment of industrial purpose properties the greatest demand will be for premises with an area of 1–2 thousand sq m at the rates of 300–400 rub./sq m/month (incl. VAT and utilities). Considering the

fall of the index of industrial production in St. Petersburg recorded in 2015, the potential for the rates to grow is limited in 2016.

The largest industrial properties (from 10 thousand sq m) to be delivered in 2016

Property	District	Declared area, sq m
Novoselie Business Park	Lomonosovskiy	27,474
STK	Vsevolzhskiy	27,000
Auchan	Pushkinskiy	25,000
AKM Logistics 2	Pushkinskiy	20,000
Admiral	Petrodvortsoviy	20,000
Ulmart	Krasnogvardeiskiy	18,500
Wurth	Pushkinskiy	14,300
Delovye Linii	Pushkinskiy	12,500
Unimilk Logistics	Pushkinskiy	12,000
4F	Pushkinskiy	11,500
Katren	Pushkinskiy	10,500

Source: Knight Frank St. Petersburg Research, 2016

RESEARCH

Tamara Popova

Head of Department
tamara.popova@ru.knightfrank.com

INDUSTRIAL

Mikhail Tyunin

Head of Department
mikhail.tyunin@ru.knightfrank.com

+7 (812) 363 2222



© Knight Frank LLP 2016 – This overview is published for general information only. Although high standards have been used in the preparation of the information, analysis, view and projections presented in this report, no legal responsibility can be accepted by Knight Frank Research or Knight Frank for any loss or damage resultant from the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank in relation to particular properties or projects.

Reproduction of this report in whole or in part is allowed with proper reference to Knight Frank.