

H1 2015

WAREHOUSE AND INDUSTRIAL MARKET REPORT

Saint Petersburg



HIGHLIGHTS

In H1 2015, the supply of the high-quality warehouse space continued to decline. In the context of the shortage of new construction projects and new deliveries, the vacancy rate is shrinking dramatically.

In H1 2015, 44,300 sq m was delivered, with just 5,200 sq m intended for the open speculative market.

The weighted average rent in H1 2015 was 521 rub./sq m/month at Class A warehouses and 420 rub./sq m/month at Class B warehouses (including VAT and operating expenses). The rates were reduced for the majority of offers for lease.

H1 2015 saw the completion of 15 projects involving construction of industrial businesses, including expansion of operating facilities. The same period saw four deals involving purchase of land plots for building production facilities within the industrial parks in St. Petersburg and Leningrad Region.



Mikhail Tyunin

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

"In general, the current situation in the market is positive: there is no panic, new warehouses are brought into the market, new deals are concluded, and warehouses are being occupied. Tenants are content with the current level of rents. But even in this context, the 5,000 sq m of speculative space delivered in H1 is not sufficient to meet the current demand. Very soon this may lead to a shortage of supply, giving boost to rents. The most acceptable terms will be offered on built-to-suit warehouses only. I believe this segment will shape the market in the future".

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Key indicators. Dynamics

Indicator	Class A	Class B	% Change*	
Total high-quality stock, thousand sq m	2,660		▲ +0.5%	
including, thousand sq m	1,660	1,000		
Total stock of high-quality warehouses leased out, thousand sq m	1,463		▶	
including, thousand sq m	1,070	393	▶	▲ +1%
Vacant space available, thousand sq m	105	52	▼ -24%	▲ 36%
Delivered in H1 2015, thousand sq m	44		▼ -49%**	
including, thousand sq m	39	5	▼ -22%**	▼ -86%**
Net take-up of high-quality warehouses, thousand sq m	65		▲ +44%	
Vacancy rate, %	6.4	5.3		
Asking rents,*** rub./sq m/month	430-600	300-600	▼	▼

* Versus Q4 2014

** Versus H1 2014

*** Including VAT and operating expenses

Source: Knight Frank St. Petersburg Research, 2015

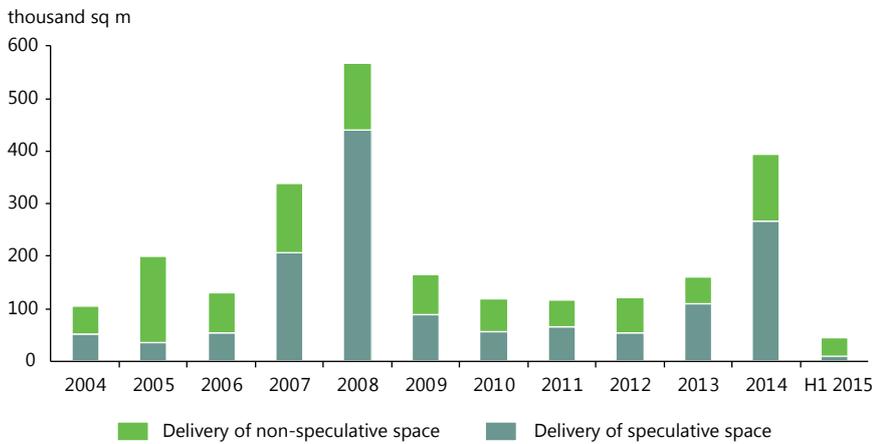
Supply

In H1 2015, the volume of the high-quality warehouse market did not change significantly. Over the period in focus, as little as 5,200 sq m of speculative space was delivered. The total area of warehouse complexes was 2.66 million sq m, including less than 1.5 million sq m of speculative space. The stable demand just aggravated the deficit of the supply that first emerged

back in 2014: as of the end of H1 2015, the vacant area of available high-quality warehouses in St. Petersburg was 157,000 sq m, down 12% from the end of 2014. In addition, only seven properties offer premises with the leasable area exceeding 9,000 sq m; in other warehouses, the average area of vacant spaces is around 4,000 sq m.

Annual delivery of high-quality warehouses

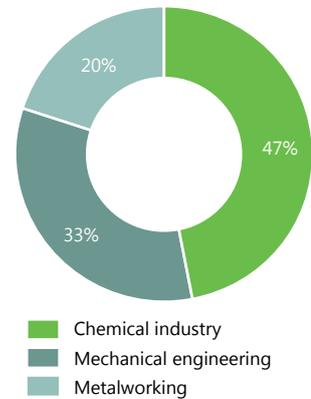
The total area of available warehouses increased by 44,000 sq m (less than 2% of the market)



Source: Knight Frank St. Petersburg Research, 2015

Opened businesses by industry

The chemical industry accounted for the largest share of businesses opened in H1 2015, with the pharmaceutical sector being especially active



Source: Knight Frank St. Petersburg Research, 2015

Quarterly supply fluctuations by Class

In general, the availability of both Class A and Class B warehouse space has been on the rise recently, except for the last two quarters, which saw a gradual decline in the supply



Source: Knight Frank St. Petersburg Research, 2015

quarters. Another major warehouse that was completely occupied by the end of H1 2015 was the Osinovaya Roshcha complex in the northern part of the city.

As of the end of H1 2015, the Class A and Class B vacancy rate was 6.4% and 5.3% of the total warehouse stock in the region, respectively.

In the recent years, there has been a distinctive trend in the mix of deals towards smaller premises. In the first six months of 2015, more than one third of the deals were below 2,000 sq m. A serious factor preventing tenants from taking up larger properties in the short run will be the limited number of relevant offers in the speculative warehouse market.

Our analysis shows that retail and distribution companies accounted for approximately two thirds of the lease deals closed H1 2015.

The activity of manufacturers in the high-quality warehouse segment in H1 2015 exceeded last year's level and was around 14% of the total warehouse space leased out. At the same time, H1 2015 saw four deals involving space in industrial parks let to manufacturing companies. The total area of land sold for construction of industrial facilities in the first six months of 2015 was around 10 hectares. The average area of land plots purchased for production development purposes decreased. Due to specific economic reasons, the mix of new industrial park residents has been dominated by small domestic businesses over the past 1.5 years. Nevertheless, 2015 saw a few deals concluded with foreign companies as well.

The total area of high-quality warehouses delivered in H1 2015 was 44,000 sq m, which is half as much as in H1 2014. At the same time, 88% of the space delivered is intended either for the companies' own use or logistics services (including consignment storage).

In H1 2015, 15 heavy and manufacturing industry businesses were opened in St. Petersburg and adjacent areas of Leningrad Region. According to the proprietary monitoring conducted by Knight Frank, this was the record-high level registered over the past five years. At the same time, regardless of the availability, some businesses may postpone the launch date owing to the crisis in certain sectors.

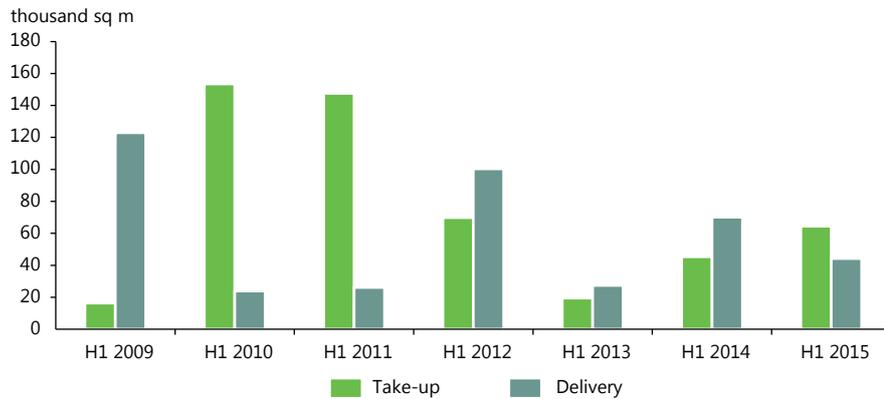
Demand

The demand for high-quality warehouses remains stable. In spite of the clearly increased share of built-to-suit projects, the take-up level in the property lease market has been rising and currently exceeds the delivery rate.

One of the most significant events in the market was the occupation of Armada Park, a major warehouse complex in St. Petersburg. The combination of a popular location, a well-designed concept and high quality of the development in Shushary village made it one of the most successful properties in the St. Petersburg market. The complex leasing period lasted three

High-quality warehouse delivery versus take-up

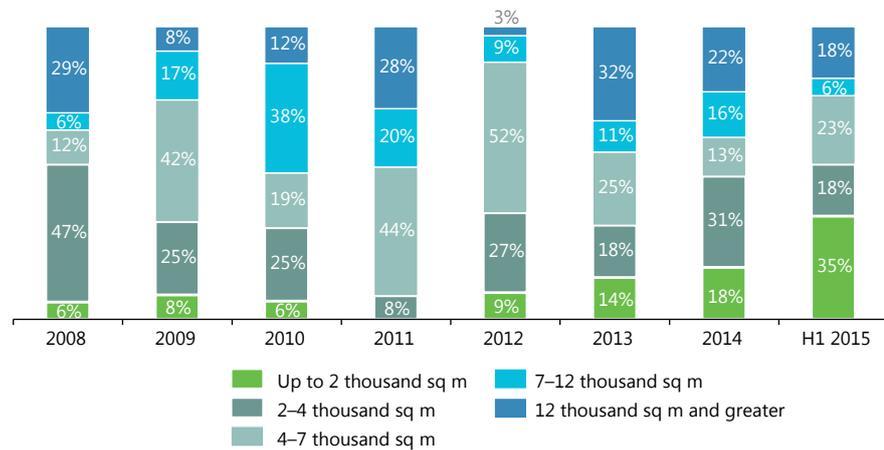
The take-up of high-quality warehouses in H1 2015 exceeds the levels of H1 2014 and H1 2013



Source: Knight Frank St. Petersburg Research, 2015

The volume of deals by rented area

Increase in the share of deals below 2,000 sq m



Source: Knight Frank St. Petersburg Research, 2015

Commercial terms

In H1 2015, the weighted average rent for Class A and Class B properties was 521 and 420 rub./sq m/month, respectively (including VAT and operating expenses). Rents for many vacant warehouses dropped, which was sometimes caused by the lease contracts being re-denominated into rubles. At the same time, some landlords adjust their commercial terms to please potential tenants. If the scenario involving gradual shrinking of the total area and the number of vacant space continues to unfold, we believe that most market players are unlikely to decrease their rents in future.

Today, industrial-purpose land in actively developing industrial parks can be purchased under two types of commercial terms. The price for land plots with all the utilities available ranges from 4,600–4,700 rub./sq m (excluding power grid connection rates), while land plots with partially available utilities cost 1,200–3,000 rub./sq m, depending on the scope and completion stage of utilities. Rates in most industrial parks dropped dramatically at the end of 2014, as they were fixed in foreign currencies at that time, which prevented most potential residents from purchasing the land. By the end of H1 2015, prices in the majority of industrial parks were denominated in rubles instead.



Expected delivery of warehouse space by district

The majority of high-quality warehouses to be soon delivered are concentrated in the southern area



Source: Knight Frank St. Petersburg Research, 2015

Forecast

The deliveries scheduled until the end of 2015 include some 240,000 sq m of warehouse space. However, possible delays in the completion of a number of projects may reduce the actual figure to around 180,000–190,000 sq m. In view of the purpose of these properties and concluded lease contracts, no more than 40,000 sq m out of this high-quality warehouse space will be available in the open speculative market.

Preservation of the current macroeconomic environment – the Central Bank’s key rate not exceeding 11.5%, oil prices being not less than 60\$/barrel and stable exchange rates – will maintain the market balance in the short-term horizon.

Due to the current deficit of speculative space, the moderately conservative scenario envisages the net take-up of high-quality warehouses totalling around 200,000 sq m in 2015.

As to the production sector, eight to ten new facilities are expected to be opened by the end of the year, including those in industrial parks.



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