



Q1 2015
WAREHOUSE MARKET
REPORT
Saint Petersburg

HIGHLIGHTS

In Q1 2015, no new large speculative warehouses (i.e. intended for lease) were delivered.

The average vacancy rate in the market remained unchanged in the first three months of 2015; however, there were some shifts in the breakdown of space available for rent.

In Q1 2015, rental prices for high-quality warehouse space decreased by 14% on average.

The total area of high-quality warehouses delivered in 2015 is expected to be around 210,000–230,000 sq m.

The net take-up of high-quality warehouse space in 2015 is projected at approximately 200,000–215,000 sq m.

WAREHOUSE MARKET REPORT SAINT PETERSBURG



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Now is the time when astute property owners are reducing rates, while tenants are making use of it. In the first three months of 2015, we observed a significant decline in vacant Class A warehouses, which could be interpreted as good performance for the year's first quarter. A logical explanation is that the rates have decreased to the level that tenants consider quite attractive. It should be remarked that the vacancy rate declined for Class A warehouses but increased for Class B. The current market situation has enabled certain businesses to improve the quality of the premises they rent without going beyond their limited budget. At the same time, the number of new projects in the lease market is insufficient, and if the vacancy rate keeps decreasing, rental prices may start growing. Given the current downward trend in the vacancy rate, rents might start rising as early as next quarter.

Key indicators. Dynamics*

Indicator	Class A	Class B	Dynamics	
Total high-quality stock, thousand sq m	2,647		▲ +2%	
including, thousand sq m	1,654	993	▲ +2%	▲ +1%
Total stock of high-quality warehouses leased out, thousand sq m	1,464		▶	
including, thousand sq m	1,070	394	▶	▲ +1%
Vacant space available, thousand sq m	121	58	▼ -13%	▲ 52%
Delivered in Q1 2015, thousand sq m	44		▼ -68%	
including, thousand sq m	35	9	▼ -73%	▲ +50%
Net take-up of high-quality warehouses, thousand sq m	43		▼ -67%	
Vacancy rate, %	7,3	5,9	▼ -1,3 p. p.	▲ +2 p. p.
Asking rents,** rub/sq m/month	500-600	380-500	▼ -12%	▼ -5%

* Versus Q4 2014

** Including VAT and operating expenses

Source: Knight Frank St. Petersburg Research, 2015

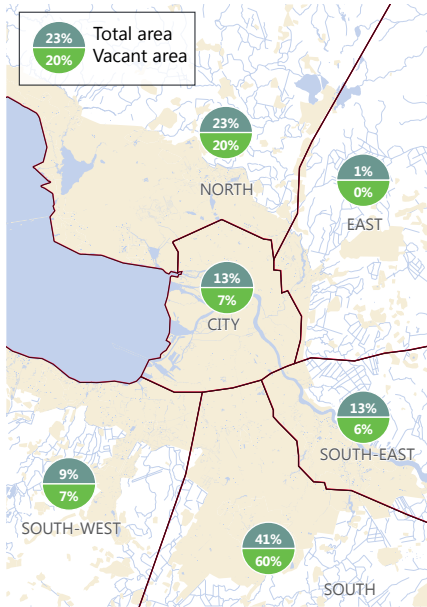
Supply

The total area of new high-quality warehouses delivered in Q1 2015 was 44,000 sq m, which is 30% higher than in the same period of 2014. It is worth noting that 88% of this space was intended for own use and logistics services (including consignment storage).

Thus by Q2 2015 the total warehouse space in St. Petersburg and its suburbs exceeded 2.6 million sq m. As for the total stock intended for lease, it remained almost unchanged in the first three months of 2015, being slightly less than 1.5 million sq m.

Geographical distribution of supply

Approximately 60% of all high-quality warehouse space available for rent is concentrated in the south



Source: Knight Frank St. Petersburg Research, 2015

The total area of vacant facilities available for lease, which has remained almost the same since the beginning of the year, was at 179,000 sq m by the end of Q1. While vacant Class A warehouse space declined (-13% versus the end of 2014), available Class B warehouses expanded significantly (by more than 50%). This could be attributed to the eagerness and ability of some tenants of Class B premises to improve the quality of the warehouses they rent due to the favourable conditions in the market: there was an ample choice of vacant Class A premises offered on acceptable commercial terms.

At the same time, the total taken up space in Q1 was almost the same as the one delivered to the market, which explains why the average vacancy rate remained unchanged since the end of 2014.

Commercial terms

The tendency to switch to paying rents in rubles strengthened in the first three months of 2015.

At the same time, the wait-and-see attitude among potential tenants, which was due to the unstable macroeconomic situation, forced developers and warehouse owners to somewhat reduce face rents. The average ruble-denominated price for high-quality warehouses dropped 12% this quarter versus the end of 2014 for Class A warehouse space and 5% for Class B. Thus, in Q1 2015 the average offer price was 500-600 rub/sq m/month (including VAT and operating expenses) for Class A warehouses and 380-500 rub/sq m/month for Class B warehouses.

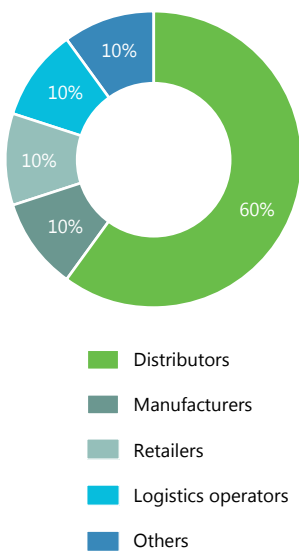
Demand

The shortest quarter of the year due to the long holidays, Q1 has always witnessed a rather small number of deals.

Nevertheless, the net take-up of high-quality warehouse space was 43,000 sq m in Q1 2015, which could be interpreted as a good sign in the current economic context, especially when compared to the negative value in the same period last year.

Demand breakdown by potential tenant type

Distributors were the most active potential tenants in Q1 2015: they accounted for 60% of all the inquiries about new warehouse space

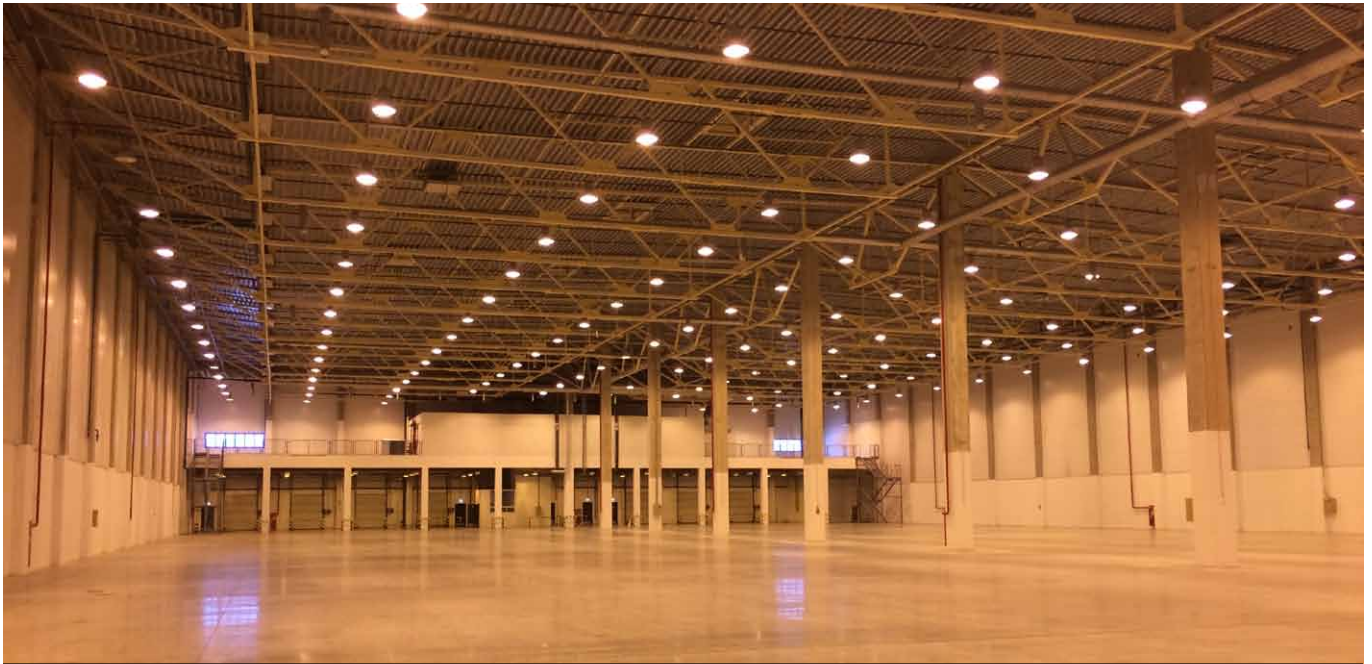


Source: Knight Frank St. Petersburg Research, 2015

Warehouse rents



Source: Knight Frank St. Petersburg Research, 2015



Industrial Park Gorigo, Lomonosov district, Gorelovo settlement

Forecast

As of the end of Q1 2015, developers announced some 250,000 sq m of warehouse space to be delivered by the end of the year. However, with the deadlines pushed back for a number of projects, we expect the actual figure to be around 170,000–190,000 sq m. Over 25% of this will be used for own needs, and more than 50% of the space is already covered by lease contracts (built-to-suit projects). Consequently, not more than 35,000–45,000 sq m of new high-quality warehouse premises will become available in the open market.

We presume that, depending on the economic situation and provided there are no major economic shocks, the take-up of high-quality warehouse space in St. Petersburg will be around 200,000–215,000 sq m in 2015. Most of this area will be taken up in the context of deals concluded previously (built-to-suit projects).

We do not expect any marked fluctuations in ruble-denominated base rental prices until the end of 2015 if the macroeconomic situation stabilises.

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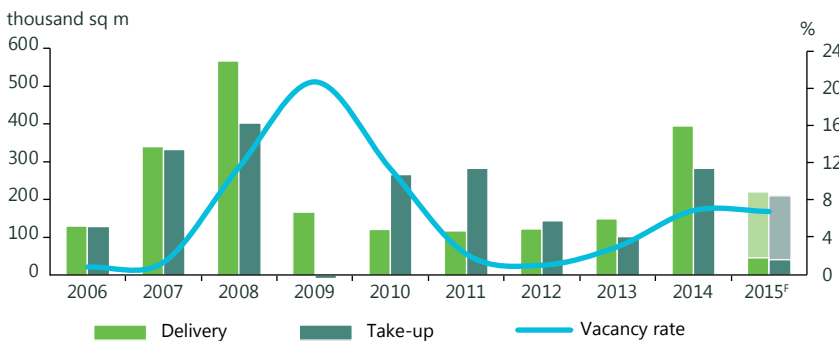
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Delivery, take-up and vacancy rate

210,000–230,000 sq m of high-quality warehouse space to be delivered in 2015



Source: Knight Frank St. Petersburg Research, 2015



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