

RESEARCH



Q3 2015 WAREHOUSE MARKET REPORT

Saint Petersburg

HIGHLIGHTS

The industrial segment is still characterized by low development activity. The commissioning of new facility of 11.9 thousand sq m did not exercise a dominant influence on total market: the aggregate growth of warehouses for lease amounted to less than 1%.

The total area of quality warehouse premises commissioned during 2015 will aspire to the level of 190 thousand sq m by the end of the year. Circa 70% of these premises will accrue to speculative development.

The weighted average rental rate for Class A totaled 515 rub./sq m/month in Q3 2015, for Class B it amounted to 364 rub./sq m/month (incl. VAT and operating expenses). The rents for Class A facilities remain stable, while Class B rents witness slight reduction.

Tenants of manufacturing segment are mostly active.



Mikhail Tyunin

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

“There is no consistency within development cycle – the developer is able to construct, while the tenant is interested in the cheapest short-term lease; the investor is able to consider contracts denominated in rubles, but under condition of long-term leases; the developer is ready to construct, but speculative development is impossible without affordable financing.

The real estate market has turned to contracts denominated in rubles, in our view, such situation will be unchanged in the nearest years. Moreover, it is highly unlikely that the contracts will be returned to foreign currency, especially if the scheme for investment transactions with ruble cash flow will be found.

The market growth is mostly probable in 2017–2018 amid rising incomes and retail turnover. Until that time, the market will mainly exist in a built-to-suit format. Rental rates are likely to persist at current levels, as the bottom of the supply has been hit: if rates are below the current level, the development fails to be profitable. The number of developers will be reduced even in the current environment”.

WAREHOUSE MARKET REPORT SAINT PETERSBURG

Key indicators. Dynamics*

Indicator	Class A	Class B	Dynamics	
Total high-quality stock, thousand sq m	2,692		▲ +0.4%	
including, thousand sq m	1,680	1,012		
Total stock of high-quality warehouses leased out, thousand sq m	1,463		▲ +0.8%	
including, thousand sq m	1,098	463		
Vacant space available, thousand sq m	136	57	▲ +29%	▲ +9%
Delivered in Q1–Q3, thousand sq m**	56		▼ -65%**	
including, thousand sq m**	35	21		
Net take-up of high-quality warehouses, thousand sq m	41		▼ -80%	
Vacancy rate, %	8.1	5.6		
Asking rents***, rub./sq m/month	450–600	300–600	▶	▼

* Versus Q2 2015

** Versus Q1–Q3 2014

*** Including VAT and operating expenses

Source: Knight Frank St. Petersburg Research, 2015

Supply

The new quality warehouse unit was added to the market in Q3 2015 in the Kalininsky district of St. Petersburg. Thus, the increase of premises proposed for lease only amounted to 17 thousand sq m from the beginning of 2015. At the same time, the lease marketing of some new properties starts, which will be delivered in Q4 2015.

Despite the low growth level of premises, the supply increased and amounted to 192.6 thousand sq m. The current situation resembles the one we saw in 2009–2010 when the market accumulated a significant number of vacant premises and given the modest delivery amount and sustainable recovery in demand, vacant space was gradually absorbed in the next two years, resulting in market supply to reach the minimum values.

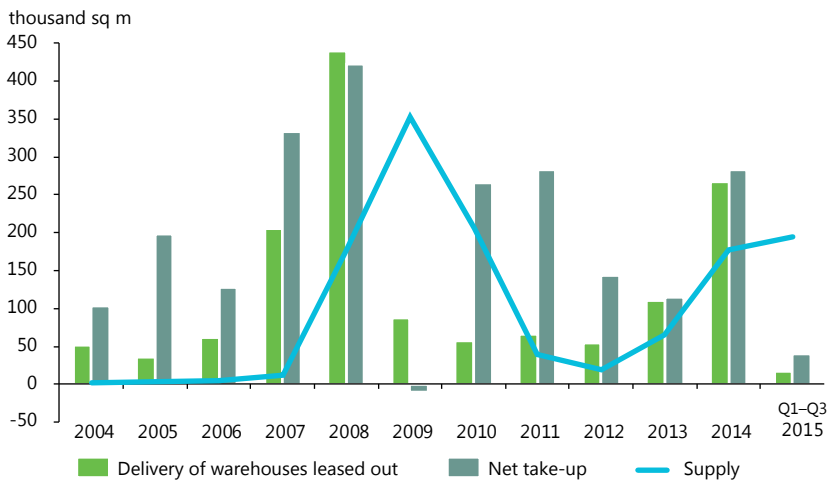
New leased out warehouses on the market, Q1–Q3 2015

Property / Location	Class	Warehouse space, thousand sq m	Stage
48 3th Konnaya Lahta, bld 4A	B	5.2	Was delivered
13 Kushelevskaya doroga, bld 2B	B	11.9	Was delivered
Mebelniy technopark / 11 Lapinskiy Ave	B	7.5	Leasing
Mebelniy technopark / 78 Marshala Blyukhera Ave	A	9.7	Sale
Novoselye	B	27.5	Leasing

Source: Knight Frank St. Petersburg Research, 2015

Key indicators. Dynamics

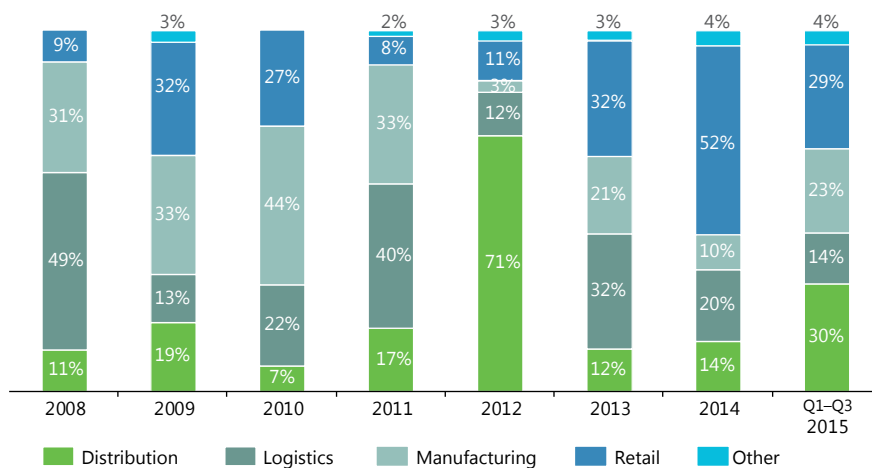
Market trends are shaping expansion of supply given the low delivery rates



Source: Knight Frank St. Petersburg Research, 2015

The tenant mix dynamics on the quality warehouse market

The share of premises leased by retail and distribution industries has approached 60%, the activity of manufacturing companies has increased



Source: Knight Frank St. Petersburg Research, 2015

Demand

The ongoing activity in the warehouse segment in Q3 2015 resulted in the completion of a number of large transactions, its total amount is comparable with the quarterly figures of 2013–2014 and estimated at no less than 70 thousand sq m. Meanwhile, the net take-up of high-quality warehouse premises in the first three quarters of 2015 was only 41.3 thousand sq m, which exceeds the volume of speculative properties delivered, but close to the historical minimum.

The analysis of the latest transactions demonstrates that the most active are retail and distribution tenants, their dominance is most noticeable in the transactions with an area of over 10 thousand sq m. However, there is a remarkable increase in demand from tenants of the manufacturing segment. One of such transactions, completed in a partnership with Knight Frank St. Petersburg team – the lease of 18 thousand sq m by Gartner company – helped to occupy the 2nd phase of Orion warehouse complex.

The survey shows a high demand for industrial properties within the city boundaries. Small businesses are most active in this sector with an increased focus on the location of properties (based on the specifics of the business) and provided electric power. 700–1,000 sq m of heated area for 300–350 rub./sq m/month (excl. VAT and utilities) was the most popular request in Q3 2015. Three transactions for 1,000–2,000 sq m of industrial warehouse space (all of them in PGSK Industrial Park) were closed with the involvement of Knight Frank specialists during Q3 2015.

Commercial terms

The rents for Class A facilities remained flat within Q3 2015, while Class B rents suffered decline. The weighted average rental rate for Class A totaled 515 rub./sq m/month, for Class B it amounted to 364 rub./sq m/month. This price-level trend will be mainly influenced by the activity of tenants, as the rental growth is limited by current market supply.

The latest commercial terms of the industrial warehouses vary within a wide price range from 250 to 500 rub./sq m/month (excl. VAT and utilities).

Forecast

135,000 sq m will be generally added to the market till the end of 2015 with its 111,000 sq m in speculative development, half of such premises will not be marketed on the open market. The delivery of new warehouse properties will be focused in the south of the city in Shushary village. There will also be some new properties commissioned at the territory of Mebelniy technopark, located within St. Petersburg boundaries.

The demand will be strong. The growth of rental rates will be hampered by a wide choice of warehouse properties for lease available at the market.

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 2015 – 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.

