



2011

# INDUSTRIAL AND WAREHOUSE MARKET

Saint Petersburg

**Knight Frank**

## EXECUTIVE SUMMARY

- In 2011, no new speculative warehouse properties entered the market.
- The vacancy rate kept declining throughout the year.
- In 2011 rental rates started to grow for the first time since the crisis.

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**Michael Tyunin**  
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*"The last year in many ways was record-breaking for the warehouse market and yet another year of leadership in the agency market for the industrial real estate department of Knight Frank. The key market trend was high occupancy rates (more than 95% of total supply) of all the existing warehouse properties. This undoubtedly leads to a shortage of supply and, as a result, growth in rental rates for high quality premises. However, in the near future we expect several high-quality warehouse projects to enter the market."*

*"2011 showed active demand for warehouse premises. Our company received requests for warehouse premises located in both built-to-suit and existing properties".*

### Key developments

- In Q2 2011 Yanino logistic park, which was constructed a year ago, started working according to its full project scheme. The terminal's commissioning facilitated to expand logistics front of the Big port Saint Petersburg's moorages (motor-car and railway services connect the terminal with the sea moorages).
- In Q3 2011, it became known that Renaissance Construction, the company that in late 2010 had announced the intention to build an industrial park in the Leningrad Region, chose a 150-hectare land plot at Kyevskoye Hwy. The company expects to fill the property with tenants in 3-4 years.
- At the turn of the year, Fiat made a final decision to go ahead with a plant construction project in St. Petersburg.

Key indicators	Class A	Class B	Change*	
Total supply of high-quality warehouse premises, thousand sq m	1,842			
including, thousand sq m	1,098	744		
Total supply of high-quality warehouse premises offered for lease, thousand sq m	1,030			
including, thousand sq m	734	296		
Commissioned in 2011, thousand sq m	12.4	3.6		
Vacancy rate, %	3	6.4		
Rental rates (triple net), \$/sq m/year	100-118	105-110		
Operating expenses, \$/sq m/year	35-45	25-35		
* As compared to 2010				
Source: Knight Frank Research, 2012				

The company researched the local market and became interested in the Yuzhny satellite township project (developer – Start Development) and the Doni-Verevo industrial park project planned to be built next to it, which is being considered as a possible option for the plant site. Fiat expects to start the development project before the end of 2012.

- In 2011, improved market conditions encouraged development activity to increase: many companies announced plans to develop warehouse projects. Thus, Edvans expressed intention to build a 33 thousand sq m warehouse complex within the next 3-5 years, Wurth North West announced the restart of its warehouse development project in Shushary industrial zone, and Sozvezdie Vodoleya holding announced plans to start

and complete phase 1 of a transportation and logistics development project in Tosno district, the Leningrad Region, before the end of 2011.

- In 2011, the lack of warehouse space brought back the pre-crisis trend of leasing premises in properties under construction. Thus, a leading motor oil distributor for the Northwest Region Karat Group leased 6.5 thousand sq m for 5 years in the Nordway warehouse complex which is currently under construction in Shushary-2 industrial zone. The key factor behind their choice of the property to lease was the possibility of expansion the leased premises in the future – an option that most other operating properties cannot offer. Knight Frank St. Petersburg acted as a broker of the deal.



## Supply

In 2011, no new speculative warehouse projects entered the market. Lack of new commissioning accompanied by active demand during the year resulted in the market shortage of quality warehouse space available for lease: as of the year-end, the amount of vacant space totaled only 36 thousand sq m.

Developers were late to respond to the positive market conditions and only in Q2 2011 launched large-scale development of both new projects and those suspended during the crisis, so most projects announced for completion in 2011 were put off to 2012. It should be noted that, despite the short supply, the number of projects under construction and their total areas are still insignificant.



Nordway Class A warehouse complex,  
Shushary industrial zone

## Demand

Throughout the year, the market showed a strong trend of active demand for quality warehouse space. As a result, annual take-up of commercial warehouse space remained stably high reaching 177 thousand sq m in 2011, which is comparable to 181 thousand sq m in the previous year.

High demand also resulted in a significant number of large transactions (more than 10 thousand sq m) closed in 2011. Average transaction size grew from 3-5 thousand sq m in late 2010 to 8-10 thousand sq m at the end of 2011. At the year-end however very few, if any, large warehouse properties were available for lease, as a significant amount of large vacant space (15-20 thousand sq m) located in the same warehouse complex left the market.

The vacancy rate kept declining throughout the year: in late 2011, the market average was near the pre-crisis level and reached 3.8%, which is 16.8 p.p. less as compared to the previous year. During the year, the vacancy rate in the Class A segment dropped by 22 p.p. down to 3%, and in the Class B segment increased by 2.7 p.p. – up to 6.4% (the latter is largely explained by some tenants moving from Class B properties to more modern, high-quality Class A projects).

### Main warehouse deals, 2011

Tenant	Core business	Class	Area, sq m	Warehouse complex
MAN	Manufacturing	A	20,800	Yunipak
Major Terminal	Logistics	A	20,400	Gorigo
Imperia Pharma *	Distribution	A	19,800	Gorigo
TPV Technology Ltd	Manufacturing	A	19,000	AKM Logistics
Trade house Champaign Wines	Manufacturing and distribution	A	17,500	MLP Utkina Zavod
Anonymous client	Retail	A	10,000	Nordway**
Karat*	Distribution	A	6,500	Nordway**
Alidi*	Logistics	A	5,000	Kulon-Pulkovo

\* Knight Frank St. Petersburg was acted as the deal's broker

\*\* lease of premises in a warehouse complex under construction

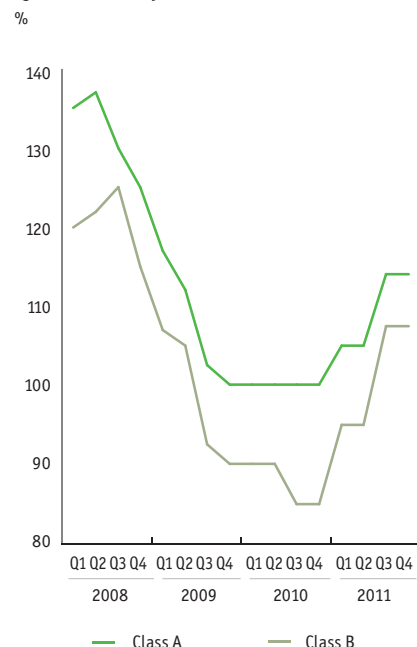
Source: Knight Frank Research, 2012

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**In 2011, market average rate for Class A properties grew by 14%, and for Class B – by 26% as compared to 2010**



Source: Knight Frank Research, 2012

In H2 2011, for the first time since the crisis, the market again saw the trend of pre-leasing space in warehouse properties that are still under construction. There were two main reasons behind that. First, tenants often simply cannot find suitable premises due to shortage of vacant space. Second, a wish for securing themselves drives them to make such deals as the market can not immediately respond to the current deficiency with new ready-to-use supply, so rental rates are probably to grow further.

## Commercial terms

High demand during the year and lack of new supply contributed to an increase in rental rates. As a result, since the end of 2010, average rental rates in the Class A segment have risen by 14%, and in Class B – by 26%.

Thus, in Class A segment rental rates range from \$100 to \$118 per sq m per year (triple net).

The supply of Class B warehouse complexes remains unchanged; most properties are located within the city limits. Although in the last quarter of 2011 the supply of vacant space in the segment slightly increased, rental rates remained close to Class A at \$105–110 per sq m per year (triple net).

## Forecast

By Q3 2011, the market faced the lack of high-quality warehouse space new supply available for lease. Though developers had already started active construction of new projects in the last year, no new speculative projects entered the market. We do not expect any

new speculative development projects to be commissioned before mid-Q1 2012.

On the other hand, new properties will enter the market with high occupancy rates, as some warehouse space in these projects was pre-leased in 2011. Thus, with the current level of demand, the vacancy rate will grow only insignificantly (on average to 6% for both Class A and B).

If demand remains high, rental rates may rise up to 5% in Q1 2012. Pre-leasing of space in warehouse projects under construction will continue to be trendy, as tenants have very limited choice and are interested in leasing on more favorable terms than those offered by projects that have already been completed.



## Main projects planned for commissioning in 2012

Project	Location	Class	Warehouse area, sq m	Developer / Project participant
Petrokhimopttorg (1 phase)	Pargolovo, Vyborgskoye Hwy / KAD	A	53,000	Invest-Bugry, Petrokhimopttorg
Nordway (1 phase)	Shushary-2, 5 km off the Ring Road	A	40,000	Hanner AB
Orion (1 phase)	Kamenka, Gorskoye Hwy	B	10,000	Orion

Source: Knight Frank Research, 2012



# OVERVIEW



## Europe

Austria  
Belgium  
Czech Republic  
France  
Germany  
Ireland  
Italy  
Monaco  
Poland  
Portugal  
Romania  
Russia  
Spain  
Switzerland  
The Netherlands  
UK  
Ukraine

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Kenya  
Malawi  
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