# RESEARCH



# 2012 INDUSTRIAL MARKET REPORT

Saint Petersburg Knight Frank

# HIGHLIGHTS

- After a one-year pause new warehouse properties for rent entered the market, all of them were delivered in H1 2012.
- Vacancy rates have achieved its pre-crisis minimum level.
- Rental rates have increased both in Class A and B and reached 120–127 \$/sq m/year for Class A and 117–120 \$/sq m/year for Class B properties.

## 2012 INDUSTRIAL MARKET REPORT St. Petersburg

# INDUSTRIAL MARKET REPORT



**Mikhail Tyunin,** Head of Industrial and Land Department, Knight Frank St. Petersburg

"In 2012, rental rates reached the level that is close to the maximum acceptable by tenants, and we believe that in 2013 contract rental rates will not exceed the level of 130 \$/sq m/year (triple net).

In 2012 main tenants in the warehouse market of St. Petersburg were distributing companies (these companies rented almost 80% of the total amount of leased out areas) and those, whose business is closely related to on-line trade. I am sure that this trend will continue in 2013. The second largest share in the total amount of leased out areas falls at retailers, and third largest share is occupied by logistic services providers. So, in 2012 manufacturing companies left behind. The reason for decrease in manufacturing companies share is rapid development of high-quality industrial real estate. We expect this segment to grow intensively in the next two years.

I would also like to note that in 2012, the demand was so active that by the end of the year there were almost no vacant premises in St. Petersburg warehouse market".

## **Key events**

 In March 2012, on St. Petersburg warehouse market the largest lease transaction of the year was closed. Marvel-Distribution, one of the leading Russian distributors of computer hardware, leased 14 thousand sq m in Shushary Logopark, Moskovskoe Hwy for 3 years. The reason for the company's management to start searching a new warehouse premise in 2011 was

## Main indicators. Dynamics\*

Indicators	Class A	Class B	Tre	nd*
Total quality supply in Classes A and B, thousand sq m	2,123		•	
including, thousand sq m	1,142	981		
Total quality supply for lease, thousand sq m	1,2	265		
including, thousand sq m	774	491		
Delivery in 2012, thousand sq m	58	119		
Take-up of high-quality premises offered for rent, thousand sq m	13	30	•	•
Average vacancy rate, %	1	3.6	•	•
Asking rental rates, \$/sq m/year	120–127	117–120		
Operating expenses, \$/sq m/year	35-45	30-35	•	•
* 2012 as compared to 2011 Source: Knight Frank St. Petersburg Research, 2013				

company's future expansion. Knight Frank St. Petersburg acted as an exclusive consultant of the deal.

 Early in June PRISMA (FMCG supermarket and hypermarket chain of the largest Finnish holding company S-Group) leased 10 thousand sq m of warehouse space for more than 5 years in Nordway logistic park (Shushary-2 industrial zone). About 2 thousand sq m of this leased space will fall at low temperature premises (+2 - +4). PRISMA company considers possible future leasing expansion within this property, and a new lease contract may be probably signed this year. Knight Frank St. Petersburg acted as an exclusive broker of the deal.







- A+ Development company jointly with Knight Frank St. Petersburg plans to develop a logistic park on the land plot located in the Pulkovo Airport area. This park will be developed especially for the companies providing express mail and cargo services. The land plot of 19 hectares, where it is planned to construct the warehouse property of about 100 thousand sq m, is located at the front line of Pulkovskoe Hwy. This is a new concept in the St. Petersburg market; so far, there have been no developers announcing such warehouse and logistic projects, consisting of both built-to-suit and speculative premises and also would be meant for tenants of the same industry. Knight Frank St. Petersburg acts as an exclusive consultant of the project's warehouse premises.
- In 2012, Knight Frank St. Petersburg, the exclusive consultant of the project, leased in the industrial park Zvezda 30 thousand sq m of industrial premises. Among the most significant are the following transactions:
- The FOREMAN company (professional manufacturer of fitness equipment and accessories for fitness clubs, hotels, offices, sports halls in schools, etc.) moved its production plant into Zvezda industrial park. The company leased 5 thousand sq m of industrial premises and 800 sq m of office premises for 5 years.
- Russian holding company PetroEnergoServis (one of the leading manufacturers of electrical equipment) in Q3 2012 rented 5 thousand sq m of industrial premises and 500 sq m of office space in Zvezda industrial park for 3 years. The company decided to start searching a new premise due to its need in production expansion.

A A A B+	14,000 10,000 7,000 7,000
A	7,000
B+	7,000
В	6,000
А	5,000
А	4,500
А	4,000

 In addition, in 2012, Schaefer company, specializing in warehouse automation and logistics planning, and Ergon company, a producer of automotive plastics and polyurethanes, became the residents of Zvezda industrial park. Each of companies leased 5 thousand sq m of industrial premises and 1 thousand sq m of office space for 5 years.

In 2012, 177 thousand sq m of high quality

warehouse space have been delivered onto

the market. As opposed to 2011 when there

were no any warehouse properties for lease

**Supply** 

#### we saw the delivery volume of such premises amounted to almost 110 thousand sq m or 62% of the total annual delivery volume in 2012. The rest falls at owner-occupied properties built by companies for their own needs, and there was no properties built for rendering logistic services.

Most of the properties for lease were delivered in Q1 2012; over the next three quarters of the year there were no such projects delivered onto the market. So, during the year the lack of warehouse space available for lease was intensifying on the background of the active demand. As a result, only 19 thousand sq m have been vacant in the St. Petersburg warehouse market by the end of the year.



By the end of 2012 the market average vacancy rate reached its pre-crisis level - 2%

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St. Petersburg



## Demand

Throughout 2012 demand for the high quality space remained high. As a result, annual takeup reached 130 thousand sq m, which is 30% less than the annual amount of 2011. The lack of the high quality space available for lease explains the fact that take-up volume in 2012 was lower than in 2011 though the demand was high.

Due to high demand the market average vacancy rate was declining throughout the year, despite the delivery of new properties for lease. As a result, by the end of the year the indicator has reached its lowest level – 2% (last time such a low rate was registered before the crisis – in 2005). Thus, since the beginning of the year the vacancy rate in Class A has fallen by 6 p.p, and in Class B – by 1.5 p.p.

## **Commercial terms**

Over the year average rental rates for the quality warehouse space rose in Class A by 7% and amounted to 120–127 \$/sq m/year (triple net), and by 5% in Class B amounted to 117–120 \$/sq m/year (triple net). However, the growth of rates occurred at the beginning of the year, and despite the strong lack of vacant high quality warehouse premises, the growth did not continue in H2 2012. Thus, by the end of 2012 the supply rates in both classes remained as of the end of H1 2012.

## Forecast

We expect that in 2013 the warehouse real estate market of St. Petersburg will keep its further development. Vacancy rates will continue decreasing in both classes, active demand will remain the same level. However, till the middle of 2013 we do not expect warehouse space available for lease; possibly the delivery of some projects will be put off.

The lack of high quality premises available for lease accompanied by the active demand will continue to grow. Declining supply will inevitably lead to growth in rental rates, but we expect that contract rates will not exceed 130 \$/sq m/year (triple net) in 2013.

At the moment according to developers' declarations in 2013 about 50–70 thousand sq m for rent are planned to be delivered. This amount may not satisfy the market demand, so, in 2013, in St. Petersburg market, we expect built-to-suit deals to appear. In this case developer builds up a property meeting the requirements of a particular client, and when the construction is over, client leases or purchases the premises.

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Established in London more than a century ago, Knight Frank is the renowned leader of the international real estate market. Together with Newmark Company, Knight Frank's strategic partner, the company encompasses 243 offices in 43 countries across six continents.

Knight Frank has been a symbol of professionalism for tens of thousands of clients all over the world for 116 years. After 16 years, Knight Frank has become the leading company in the commercial, warehouse, retail and residential real estate segments of the Russian real estate market. More than 500 large Russian and international companies in Russia have already made use of the company's services.

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