

A photograph of a modern industrial building facade with a series of tall, dark, rectangular panels, each featuring a large circular opening. The building is set against a clear blue sky, and the ground in the foreground is covered in snow.

2013

# INDUSTRIAL AND WAREHOUSE REAL ESTATE MARKET

Saint Petersburg

## HIGHLIGHTS

- The total amount of warehouse space delivered in 2013 neared the mark of 100 thousand sq m.
- Class A warehouse facilities lease rates grew by 7%.
- The total area of lease transactions on the warehouse market of St. Petersburg amounted to about 170 thousand sq m in 2013.
- In 2014, the volume of delivered speculative high-quality warehouse space alone promises to exceed 200 thousand sq m.
- Demand for industrial property remains consistently high, however, against the background of an almost complete absence of operational supply in the segment of high-end industrial real estate, this leads to reorientation of tenants towards lower-class facilities.

INDUSTRIAL AND WAREHOUSE  
REAL ESTATE MARKET

**Mikhail Tunin,**  
Head of the industrial  
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Frank St. Petersburg

"In 2013, the warehouse real estate market started coming out of a prolonged stagnation, which is confirmed by both the developers' activity of a gradual return to the previously "frozen" projects, and the tenants who have leased about 170 thousand sq m over the past year.

In 2014, we expect more than 200 thousand sq m of speculative warehouse space to hit the market. However, at the moment the level of pent-up demand is such that given a reasonable developers' politics regarding the commercial terms, the market will easily absorb this amount of space over 12–18 months.

As for the market of production facilities, the largest volume of offer in this segment is formed by the projects of built-to-suit format and through the sale of land plots in industrial parks for which the price is exceedingly high. Unfortunately, the majority of developers are not ready to bring to the market a product that would suit the needs of tenants: finished high-quality production premises with an area of 1–3 thousand sq m".

## Key events

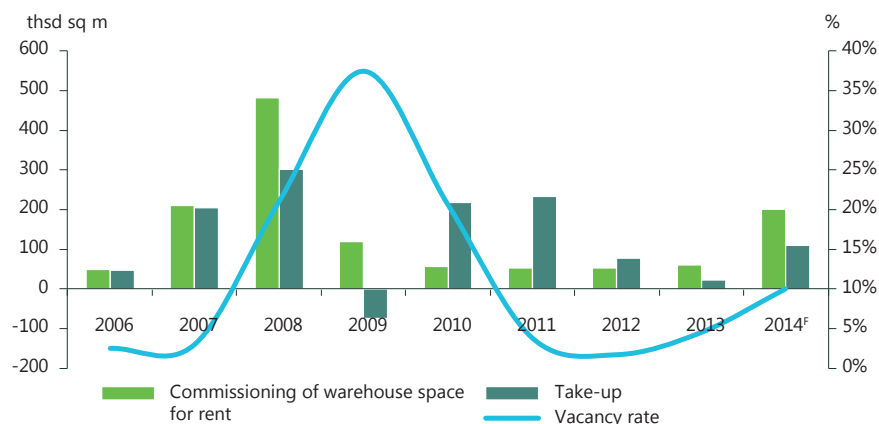
- In Q1 2013, the Russian office of British American Tobacco has signed a contract for custodial services (3PL-services) with Corporation Sterkh in logistics park Osinovaya Roscha. The total volume of the deal amounted to 25 thousand pallet-places. Knight Frank St. Petersburg acted as exclusive consultant. The deal is one of the largest on the 3PL-service market of St. Petersburg for the entire period of its existence.
- In December 2013, Global Ports has completed acquisition of 100% stake in the National Container Company. The deal budget amounted to \$291 million. Thus, in St. Petersburg Global Ports has acquired 100% of the First Container Terminal, 80%

## Key indicators. Dynamics

| Indicator   | Class A | Class B | Dynamics*   |             |
|---|---------|---------|-------------|-------------|
| Total high-quality stock volume, thousand sq m                    | 2,260   |         | ▲ +5%       |             |
| including, thousand sq m  | 1,225   | 1,035   | ▲ +8%       | ▲ +1%       |
| Total stock volume of high-quality space for lease, thousand sq m | 1,255   |         | ▲ +5%       |             |
| including, thousand sq m  | 841     | 414     | ▲ +8%       | ▶           |
| Delivered in 2013, thousand sq m                                  | 98      |         | ▼ -19.8%    |             |
| including, thousand sq m  | 88      | 10      | ▲ +41%      | ▼ -84%      |
| Leasable high-quality space take-up, thousand sq m                | 25      |         | ▼ -69%      |             |
| Vacancy rate, %   | 5.3     | 2       | ▲ +4.3 p.p. | ▼ -1.6 p.p. |
| Asking lease rates**, \$/sq m/year                                | 125–135 | 100–120 | ▲ +7%       | ▶           |
| Operational costs, \$/sq m/year                                   | 35–45   | 30–35   | ▶           | ▶           |

\* end of 2013 compared with the end of 2012  
 \*\* excluding VAT, operational costs and utility bills  
 Source: Knight Frank St. Petersburg Research, 2014

## The total volume of the speculative space delivery in 2013 exceeded the figure of 2012 by 11%



Source: Knight Frank St. Petersburg Research, 2014

of the terminal in Ust-Luga and the "dry port" in the Shushary industrial zone.

- The Investment Council under the Governor of the Leningrad Region has approved the bill on measures of state support for industrial parks (IP). The

project provides for the granting of tax incentives and reduced lease rates to organizations engaged in development of IP activities. While the income tax is suggested to be lowered to 13.5%, the property tax is expected to be dropped to 0%. These exemptions will be granted for





Ladoga industrial park,  
Vsevolozhsk

a period of 4 years, where the organization that was assigned an IP status can itself over the 6 years term choose the four years of benefits period. The plan also includes reduced lease rates for the land plot where IP is expected to be created. The lease incentives will be divided into three parts over the 6 years period: the first 2 years they will be 30% of the total amount, in the next 2 years – 60%, and for the final stage – 90%.

- Two new industrial parks have appeared in the region in 2013. In the beginning of the year, Agrottrade LLC (part of Baltstroy GC) announced plans to build an Ladoga industrial park with an area of 29 thousand sq m on a plot of 5.3 ha in Vsevolozhsk. Presently, construction of the building framework in the Yuzhniy neighborhood is underway. The plan is to accommodate up to five production sites on territory of industrial park. The production and storage facilities are planned to be built in stages over the years 2014–2015. In Q3 2013, Zavod metallicheskih konstruktsiy JSC has announced plans to build a new ZMK industrial park on its territory. It will be located on a plot of 13 ha in the Rybatskoe industrial zone. 40 thousand sq m of production space are already available for lease. Moreover, in the coming two years

another 45 thousand sq m of production and warehouse space are planned for delivery. Knight Frank St. Petersburg Company acts as the exclusive consultant and broker of the project.

## Supply

In 2013, 98 thousand sq m of high-quality warehouse space were delivered: almost on 20% fewer than in 2012. The volume of speculative space delivery over the past year amounted to 60 thousand sq m, which is 62% of the annual figure. From the storage space facilities delivered in 2013, 28% are designed to provide logistics services, while the remainder falls with storage facilities built by companies for their own needs.

Throughout the year, the deficit of affordable speculative supply for lease kept growing against the backdrop of a high level of demand. At the end of 2013, the market of St. Petersburg offered to lease about 55 thousand sq m, of which 30 thousand sq m (about 54%) are space in a warehouse complex, which was delivered at the end of the Q3.

Total space of production facilities in St. Petersburg at the beginning of 2014 is more than 27 million sq m, which is about 30% of the total non-residential space stock of the city. Presently, about 1,817 thousand sq m of high-quality industrial real estate space is ready for operation, although almost all of it is used for the owners' own needs.

### Speculative warehouse complexes delivered in 2013

| Name                       | Location                             | Class | Area, sq m | Developer          |
|----------------------------|--------------------------------------|-------|------------|--------------------|
| Orion (stage 2)            | Kamenka industrial zone, Gorskoe Hwy | B     | 35,000     | Orion LLC          |
| Osinovaya Roscha (stage 2) | Pargolovo, Vyborgskoe Hwy            | A     | 54,600*    | Corporation Sterkh |

\* part of the space is used by the owner for logistics services  
Source: Knight Frank St. Petersburg Research, 2014

2013

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## Demand

Throughout 2013, demand for high-quality warehouse space remained consistently high. As a result, for the year approximately 170 thousand sq m of space were leased, which is 15% more than in 2012. In addition, several major sales transactions with a total space of 80 thousand sq m took place on the market.

It should be noted that, due to insufficient available space in the finished complexes, most of the transactions on the market were concluded with space in objects under construction. In this regard, the total net take-up in 2013 was much more modest: 25 thousand sq m, which is 3 times lower than in 2012.

During Q1–3 2013, due to high demand on the market, average vacancy rate remained at a record low not exceeding 2.5%. In Q4, a complex with low occupancy rate was delivered. This has led to some growth of vacancy rates in class A: compared with Q4 2012, the figure grew by 4.3 percentage points. The Class B figure has dropped by 1.6 percentage points over the year.

The demand for industrial real estate is also consistently high. The average area of requested facilities in this segment is 2,380 sq m. Presently, such needs can only be met by industrial complexes offering for lease their own space, which they themselves are not using.

## Commercial terms

In 2013, one could observe growth of asking lease rates for Class A warehouse facilities: on average, it has reached about 7% on the market for the year. As a result, the rates here have reached 125–135 \$/sq m/year (triple net). In class B the supply rates remained stable throughout the year, and as of late 2013 were in the range of 100–120 \$/sq m/year.

As to the figures in the segment of industrial use premises, here, as before, every case is very individual, although on average they are in the range of 330–380 rub/sq m/month (including VAT, utilities and operating expenses).

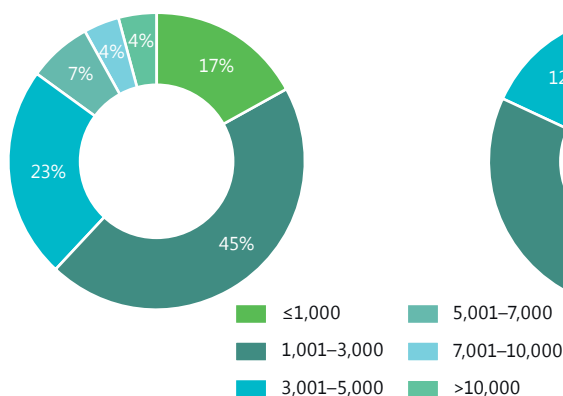
## Forecast

In the past year, developers have started to show activity and revive the previously deferred warehouse projects. In 2014, the delivered volume of speculative high-quality warehouse space alone promises to exceed 200 thousand sq m.

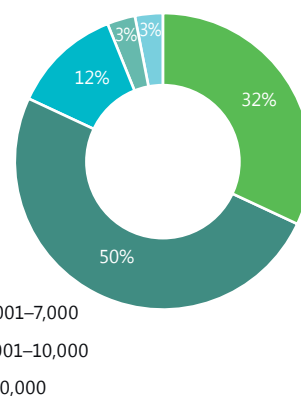
This space will help to meet the demand



**High-quality warehouses with an area between 1 and 5 thousand sq m are the most popular at tenants: they accounted for 68% of demand**



**In 2013, manufacturing premises with an area of up to 3 thousand sq m remained the most popular on the market, they accounted for more than 80% of the total demand**



Source: Knight Frank St. Petersburg Research, 2014

### Key projects planned for delivery in 2014

| Name                               | Location                                      | Class | Area, sq m | Developer                     |
|------------------------------------|---|-------|------------|-------------------------------|
| Armada park                        | Shushary industrial zone, Moskovskoe Hwy      | A     | 75,000     | Adamant Holding               |
| Osinovaya Roscha (stage 3)         | Pargolovo, Vyborgskoe Hwy                     | A     | 50,000     | Corporation Sterkh            |
| NordWay (stage 2)                  | Shushary-2 industrial zone, 5 km off from KAD | A     | 40,000     | Hanner AB                     |
| Troitskiy logistics park (stage 3) | Obukhovskoy Oborony Ave, 295                  | A     | 38,800     | Resolute Asset Management LLP |
| STK                                | Bugry   | B     | 27,000     | InvestBugry LLC               |

Source: Knight Frank St. Petersburg Research, 2014

accumulated over the previous two years of market stagnation. In addition, delivery of such a large amount of space should prevent further growth in lease rates, which will allow them to lock in the current range (125–135 \$/sq m/year for Class A).

Nevertheless, the space in complexes under construction has become a subject of active take-up already back in 2013, which is why

most objects will hit the market with a high degree of occupancy. Due to this, one should not expect overstocking of the market.

Due to the low degree of readiness of most industrial parks, as well as almost complete absence of small-sized facilities in them, we can confidently predict further growth in demand for finished production facilities and strengthening of deficit in this market segment.

# RESEARCH



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