



H1 2014
INDUSTRIAL
AND WAREHOUSE
REAL ESTATE MARKET
Saint Petersburg

HIGHLIGHTS

- In H1 2014, 61 thousand sq m of high-quality speculative warehouse space have been delivered, which constitute 71% of the total volume delivered for the considered time-frame.
- Vacancy rate on the market continued its gradual growth amounting to 7.3% by the end of H1.
- Lease rates for warehouse space remained stable.
- In 2014, the volume of delivered high-quality warehouse space promises to exceed 200 thousand sq m, with over 85% of this space belonging to speculative complexes.
- 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

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"In the first half of 2014, the trends established at the end of 2013, dynamically progressed, marking the long-awaited release of the market from its "drowsy" stagnation.

Unafraid of overproduction developers are still launching new projects on the market, some of which were frozen during the recession of 2008–2009. Despite the fact that over the past 6 months, the plans of developers regarding the delivery timing of their objects have been slightly adjusted, we expect about 120–130 thousand sq m of speculative warehouse space to be delivered in H2. Thus, the total annual amount of delivery will be the 5 years' record figure of 180–190 thousand sq m.

The tenants are also alert and rather active in the search for new premises, which is significantly boosted by the opportunity of choice, which has appeared on the market last year.

Speaking of the industrial facilities market, everything remains as before: the largest transactions volume in this segment is constituted by the built-to-suit format projects and through the sale of land in the industrial parks territory. Developers are still not ready to take a chance and offer the market a product that the tenants need: finished high-quality industrial facilities with an area of 1–3 thousand sq m".

Key indicator. Dynamics

Indicator	Class A	Class B	Dynamics*	
Total high-quality stock volume, thousand sq m	2,321		▲ +4%	
including, thousand sq m	1,239	1,082	▲ +4%	▲ +4%
Total stock volume of leased high-quality space, thousand sq m	1,327		▲ +5%	
including, thousand sq m	840	487	▲ +4%	▲ +6%
Delivered in Q1 2014, thousand sq m	87		▲ +26%	
including, thousand sq m	50	37	▼ -16%	▲ 3.8 times
Leasable high-quality space take-up, thousand sq m	30		▲ +33%	
Vacancy rate, %	7.5	6.6	▲ +2.2 p. p.	▲ +4.6 p. p.
Asking lease rates**, \$/sq m/year	125–135	100–120	▶	▶
Operating expenses, \$/sq m/year	35–45	30–35	▶	▶

* Compared with H2 2013
 ** Excluding VAT, operational costs and utility bills
 Source: Knight Frank St. Petersburg Research, 2014

Key events

- In the first half of 2014, several companies at a time have announced plans to build new logistics complexes in the region. Among them the CJSC Wuerth Severo-zapad (part of the Wuerth concern), Yulmart, Prime Group, LLC Alliance (part of the Moscow group MSD). Furthermore, high activity is notable with both the owners who are planning to build facilities for their own needs, and the developers who build complexes for subsequent sale or lease.
- The Government of the Leningrad Region has created an information database

for potential investors with Brownfield (sites with finished engineering and constructed buildings and facilities) and Greenfield (unprepared sites) sections, containing information about more than 80 plots with a total area of about 300 thousand sq m. The system already shows implemented investment projects and the development plans of infrastructure organizations.

- Ohta Group has acquired an office and warehouse complex at 150 Piskaryovskiy Avenue with a land plot area of about 17 hectares from the Logistics Company Transsphere. The total area of the complex is about 13 thousand sq m.

Key figures of market of the market of industrial parks

Figure	Value
Total area of industrial parks in the region	30 units 2,750 ha
Finished and actively developing industrial parks	15 units 1,104 ha
properties sold there	455 ha
facilities built there	384 thousand sq m
Land prices in industrial parks	
without engineering works finished	35–75 \$/sq m
with engineering works finished	170–200 \$/sq m

Source: Knight Frank St. Petersburg Research, 2014

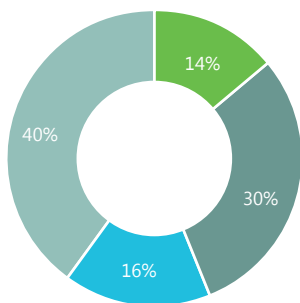


Supply

Six high-quality warehouse complexes with a total area of 87 thousand sq m were delivered in H1 2014. 71 % of this space is speculative, that is, the premises in them are intended for lease.

By the end of H1, the volume of delivered speculative facilities exceeds total an-

The retail operators demonstrated the highest activity in H1 2014: they leased about 40% of all leased high-quality storage facilities in the region for the period



- Logistics operator
- Manufacturing company
- Distributor
- Retail

Source: Knight Frank St. Petersburg Research, 2014

nual values of this indicator for the past 4 years.

Thanks to the gradual delivery of new high-quality warehouse space, which began in H2 2013, a decline in the shortage of affordable lease stock is notable on the market. By the end of H1 2014, about 85–95 thousand sq m of lease stock was available on the market of St. Petersburg.

At present, there are 15 actively developing and fully operational industrial parks with a total area of 1,104 hectares in St. Petersburg and Leningrad region, of which 455 hectares were sold one way or another.

Demand

Demand for high-quality warehouse space remains high. In H1 2014, the net take-up volume on the market of high-quality warehouse space amounted to 30 thousand sq m, which is twice the annual rate of 2013. Meanwhile, in H1 2014, the transactions volume amounted to about 40 thousand sq m. Besides, the signing of preliminary contracts for the complexes under construction is actively underway on the market, although detailed information regarding them is confidential at the moment.

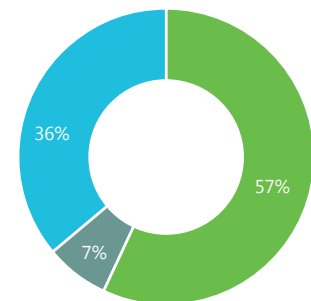
Demand for industrial real estate is also consistently high. The average requested size of facilities for this segment in H1 2014, amounted to 2,400 sq m. At present, mostly only the industrial complexes offering own unused space for lease can satisfy such requests.

Commercial terms

In H1 2014, the lease rates for high-quality warehouse space remained stable and consistent with the level of late 2013: 125–135 \$/sq m/year (triple net) for Class A and 100–120 \$/sq m/year for Class B facilities.

Despite the generally accepted market practice of denominating lease rates in dollars, in the last few years, there began to appear complexes, in which lease is denominated in rubles according to the

Warehouse complexes supply stock according to the lease currencies



- USD
- Euro
- Rubles

Source: Knight Frank St. Petersburg Research, 2014

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“all inclusive” system. These are mainly the objects under construction by the Russian developers.

Concerning the figures for the industrial facilities segment, there is, as before, every case is highly individual, however, on average, they are in the range of 350–380 rub/sq m/month (including VAT, utilities and operating expenses).

Forecast

According to our forecasts, the total delivery volume of high-quality warehouse space intended for lease in 2014 will exceed 180 thousand sq m. Overall, more than 200 thousand sq m will be added to the market.

These facilities will help meet the demand that has accumulated over the previous two years of market stagnation. We expect that, given persistence of current market trends, the total amount of lease transactions will reach 160–180 thousand sq m.

Besides, the delivery of so many facilities should prevent the growth of lease rates, which will allow them to remain at the current level (125–135 \$/sq m/year for Class A).

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 industrial facilities and the increased deficit in this market segment.

Key projects delivered/planned for delivery in 2014

Name	Location	Class	Storage space, sq m	Developer
H1 2014				
NordWay (2nd stage)	industrial zone Shushary, Moskovskoe Hwy	A	36,000	Hanner AB
STK	Bugry	B	25,400	LLC InvestBugry
H2 2014				
Armada Park	Industrial zone Shushary, Moskovskoe Hwy	A	72,700	Adamant Holding
Osinovaya Roshya (3 rd stage)	Pargolovo, Vyborgskoe Hwy	A	50,000	GC Sterkh

Source: Knight Frank St. Petersburg Research, 2014

The total speculative facilities delivery volume in 2014 will be 3 times greater than the average annual delivery over the past 5 years



Europe

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

Africa

Botswana
Kenya
Malawi
Nigeria
Tanzania
Uganda
Zimbabwe
Zambia
South Africa

Middle East

Bahrain
UAE

Asia Pacific

Australia
Cambodia
China
India
Indonesia
Malaysia
New Zealand
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Bermuda
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