



Q3 2014
WAREHOUSE
REAL ESTATE MARKET
Saint Petersburg

EXECUTIVE SUMMARY

- The total area of quality warehouse complexes on the market of St. Petersburg and its suburbs exceeded 2.5 million sq m.
- In Q3 2014, 183,000 sq m of quality warehouse area was commissioned, increasing the total market by 8%.
- Despite record rates of commissioning, the vacancy rate in Q3 increased by only 0.8 p.p. and amounted to only 8.1%.
- The rental rates for warehouses remain stable.
- By the end of 2014, the total area of quality warehouses commissioned will approach 300,000 sq m, while about 70% of the area will accrue to speculative complexes.

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"Within the past 9 months of 2014, we have been observing record volumes in commissioning and acquisition accompanied by a stabilization of rental rates. This is not, however, only thanks to the year 2014. There was a deferred high demand from 2009–2010 that has just started to be realized now.

It can be said that the average demand for St. Petersburg is at a level of 200,000 sq m annually. I don't think that this number will grow considerably. For this reason, we may not be able to achieve pre-crisis annual demand rates of 300,000–400,000 sq m until 2018–2020.

Since the core demand is currently formed by retailers, they define the requirements for facilities. Retailers have had numerous different, considerably complicated and expensive, tasks when reconstructing dry standard warehouses towards individual formats; therefore, retail chains were first to require turn-key construction. This has begun to be the main format in the market, and today 80% of retailers demand warehouses on a build-to-suit basis. This is so because it is always easier to construct a finished facility that has been developed in compliance with an initially composed and adopted concept. This approach is the future of the market, and marks the beginning of a shift to new quality levels."

Key indicator. Dynamics

Indicator	Class A	Class B	Dynamics*	
Total amount of quality warehouse complexes, thousand sq m	2,541		▲ +8%	
including, thousand sq m	1,445	1,096	▲ +15%	▶
Total amount of quality warehouse complexes rented, thousand sq m	1,475		▲ +14%	
including, thousand sq m	981	494	▲ +23%	▶
Area of rentable offers, thousand sq m	94	10	▲ +49%	▼ 69%
Amount commissioned in Q3 2014, thousand sq m	183		▲ 6 times	
including, thousand sq m	183	0	▲ 36 times	▼
Net acquisition of rentable quality areas, thousand sq m	150		▲ 4 times	
Vacancy rate, %	9.6	2	▲ 2.1 p.p.	▼ 4.6 p.p.
Requested rental rates **, \$/sq m/year	125-135	100-120	▶	▶
Operating expense rates, \$/sq m/year	35-45	30-35	▶	▶

* Compared to the previous quarter

** VAT, operating expenses and utility fees excluded.

Source: Knight Frank St. Petersburg Research, 2014



Key events

- In July, the Legislative Assembly of the Leningrad Region adopted the Law "On Measures of State Support for Creation and Development of Industrial Parks in the Leningrad Region" that provides for tax privileges and preferential land rental fee rates for industrial park developers. These privileges are similar to the preferences that apply to investors in the region: the profit tax rate was reduced to 13.5%, and property tax rate – to 0%. These privileges are to be provided for 4 years; and additionally within 6 years after receiving the status of an industrial park, the organization will be able to choose the four-year period for exercising said privileges. The Law will come into effect on January 1, 2015.
- In Q3 2014, two logistic companies announced their plans to construct logistic centers in St. Petersburg. Both projects will be completed on a built-to-suit basis (construction specific to the customer) in the A Plus Park Shushary industrial park. About 12,000 sq m will be occupied by the Norbert Dentressangle Logistics' warehouse, and another almost 20,000 sq m will be occupied by the warehouse of a major federal transport company (the name of which is currently confidential under the terms of the contract).

Supply

Q3 2014 became record breaking in the total area of commissioned quality warehouses, as 183,000 sq m were commissioned in July–September, 72% of which were speculative (i.e. designated for lease).

In general, within the first 9 months of 2014, 293,000 sq m were commissioned, an amount more than twice as high as the average annual rate for the last 5 years.

Thus, the total market of quality warehouses in St. Petersburg and its suburbs exceeded 2.5 million sq m.

This record rate of warehouse commissioning shown this year resulted in a reduction in the deficit in available facilities which was observed throughout last 3 years. According to data as per the end of Q3 2014, the St. Petersburg market offered about 100,000–110,000 sq m of finished quality warehouse areas for lease.

Key projects commissioned in January–September 2014

Project name	Location	Class	Warehouse area, sq m	Developer
Armada Park (1st phase)	industrial zone Shushary, Moskovskoe Hwy	A	72,700	Adamant Holding
Osinovaya Roshcha (3rd phase)	Pargolovo, Vyborgskoe Hwy	A	50,000	GC Sterkh
Nord Way (2nd phase)	industrial zone Shushary, Moskovskoe Hwy	A	36,000	Hanner AB
STK (2nd phase)	Bugry	B	25,400	InvestBugry LLC

Source: Knight Frank St. Petersburg Research, 2014

Demand

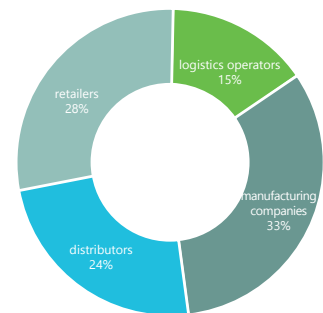
Despite certain negative processes observed in the country's economy in general, the demand for quality warehouses remains persistently high. At the end of the first three quarters of 2014, net acquisition at the quality warehouse facility market amounted to 150,000 sq m, which exceeds the average annual rate of 2013 sevenfold, and that of 2012 – twofold.

Within the first 9 months of 2014, the highest amount of activity was demonstrated by industrial companies – they rented 33% of all quality warehouses in the region that were rented out within this period. The manufacturers were closely followed by retail operators.

Commercial terms

Throughout the first three quarters of 2014, rental rates for quality warehouses remained stable and corresponded to the rates observed at the end of 2013: 125–135 \$/sq m/year (triple net) for A class facilities and 100–120 \$/sq m/year – for B class ones.

Despite general market practice of denominating rental rates in USD, "all inclusive" complexes with rental rates denominated in rubles started to appear in recent years. Those are mostly the facilities delivered by Russian developers. At the end of Q3 2014, about 37% of all finished vacant areas at the market are offered for rent at rates in rubles.



Source: Knight Frank St. Petersburg Research, 2014



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Forecast

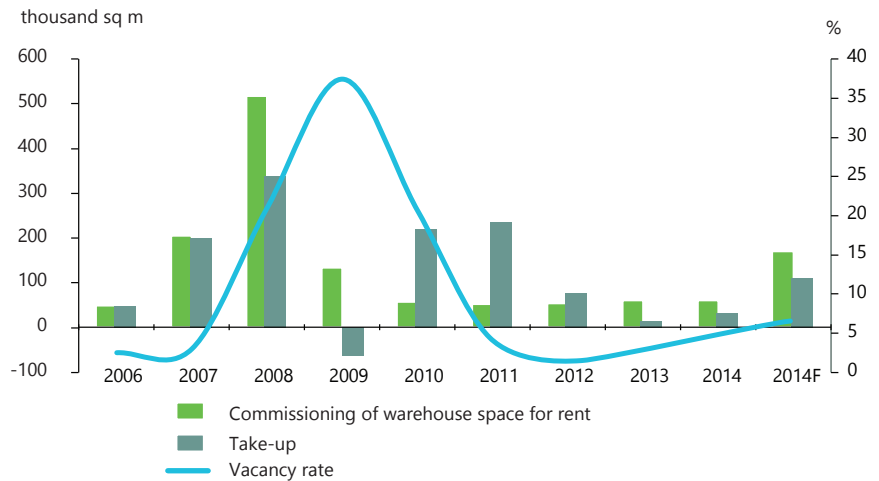
The market won't face any serious changes by the end of the year. Key facilities announced for commissioning in the current year have been already constructed. Currently vacant areas in them will be gradually filled. Rates will also remain stable.

In 2015, we expect the same trends. The commissioning rate will be slightly lower, but remain at rather a high level compared to that of previous 3-4 years.

The demand will also remain stable. However, the acquisition rates will slow down slightly along with a gradual reduction of the deficit in available facilities.

Additionally, a release of sufficient amount of areas will prevent rise of rental rates. Should no serious negative process in the country's and region's economy occur in general, and if exchange rates are able to stabilize, no fall of rental rates is to be expected.

The total amount of commissioning of speculative areas in 2014 exceeds the average annual rate for the previous 5 years almost three times and will be comparable to 2007 levels.



Source: Knight Frank St. Petersburg Research, 2014



Armada Park, A class, industrial zone Shushary, Moskovskoe Hwy

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
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