



Q1 2014

INDUSTRIAL AND WAREHOUSE REAL ESTATE MARKET

Saint Petersburg

HIGHLIGHTS

- Two high-quality warehouse facilities with the total area of 45 thousand sq m were delivered in Q1 2014.
- The lease rates for warehouse facilities remain stable.
- Vacancy rates on the market continued to grow reaching the figure of 7.8% by the end of Q1 2014.
- The delivery of speculative high-quality warehouse space alone in 2014 promises to exceed 200 thousand sq m.
- Demand for industrial property remains consistently high. Against the background of almost complete absence of operational supply stock in the segment of high-end industrial real estate, this leads to the reorientation of the tenants towards lower class facilities.

INDUSTRIAL AND WAREHOUSE
REAL ESTATE MARKET

Mikhail Tunin,
Head of the industrial
and warehouse real
estate and land
department at Knight
Frank St. Petersburg

"Back in the mid-2013, the warehouse real estate market began to come out of a prolonged stagnation, which could be confirmed by increased activity of both the developers gradually resuming previously "frozen" projects and the tenants.

We hope that these positive trends, having started last year, will persevere into 2014. At present, all indicators point to this. Firstly, we expect more than 200 thousand sq m of speculative warehouse space to be delivered on the market this year. Secondly, the demand for high-quality warehouse property remains consistently high, as is evidenced by closed and closing deals, including those for facilities under construction.

As for the market of industrial facilities, the largest volume of deals in this segment is formed by the built-to-suit format projects and by the sale of land in the industrial park zones where prices are impossibly high. Unfortunately, the majority of developers are not ready to offer a product that meets the tenants' needs: finished high-quality industrial premises of 1–3 thousand sq m".

Key events

- In Q1 2014, several companies at a time have announced plans to build new logistics complexes in the region. CJSC Wuerth Severo-Zapad (part of the Wuerth Group) has begun construction of a logistics complex for own use in Shushary. The plans to build the complex were announced before the recession, however, the project was suspended. The complex is being built on a plot of 26 hectares, and its total area is 14.3 thousand sq m.

Key indicator. Dynamics

Indicator	Class A	Class B	Dynamics*	
Total high-quality stock volume, thousand sq m	2,277		▲ +2%	
including, thousand sq m	1,239	1,038	▲ +4%	▶
Total stock volume of leased high-quality space, thousand sq m	1,283		▲ +3%	
including, thousand sq m	845	438	▲ +4%	▶
Delivered in Q1 2014, thousand sq m	45		▲ +21%	
including, thousand sq m	45	0	▲ +39%	▼ -100%
Leasable high-quality space take-up, thousand sq m	-8		▼	
Vacancy rate, %	9.1	3.9	▲ +3.8 p. p.	▲ +1.8 p. p.
Asking lease rates**, \$/sq m/year	125–135	100–120	▶	▶
Operating expenses, \$/sq m/year	35–45	30–35	▶	▶

* compared with Q4 2013
 ** excluding VAT, operational costs and utility bills
 Source: Knight Frank St. Petersburg Research, 2014

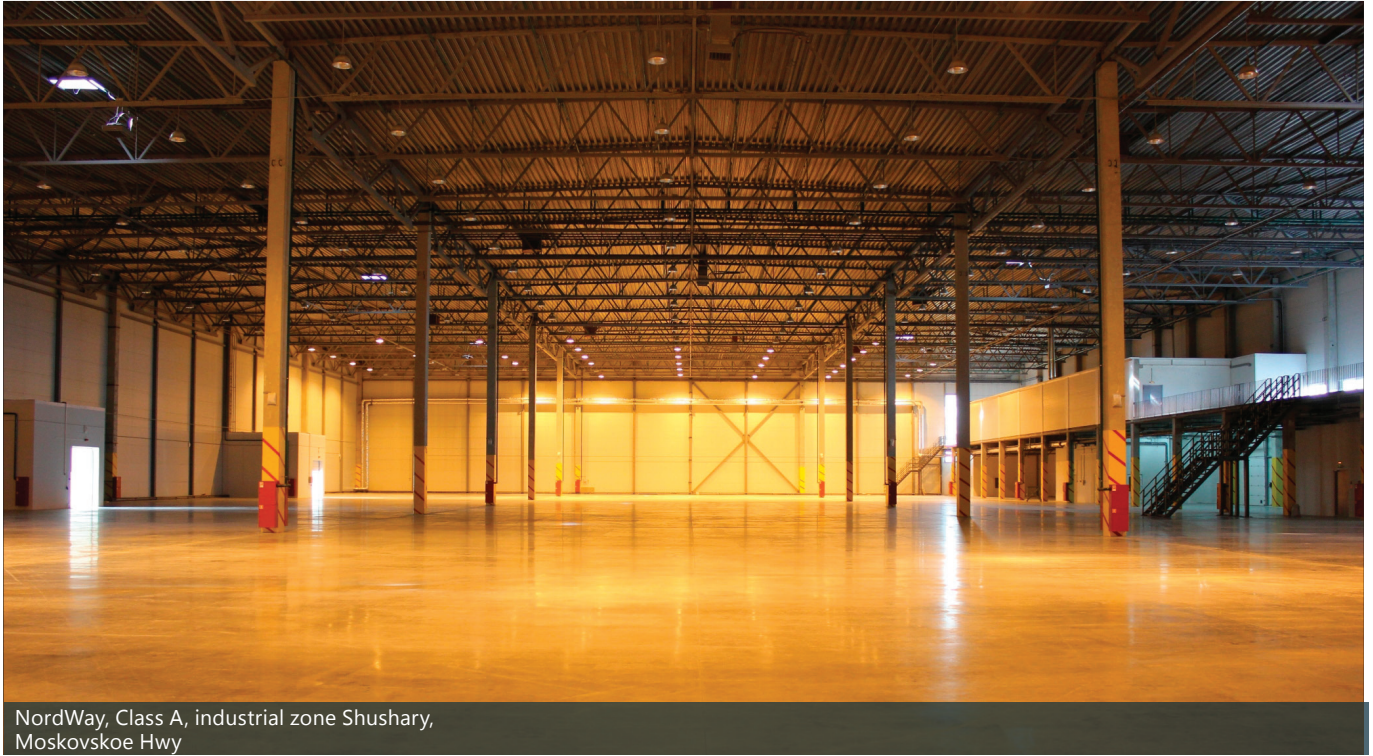
- LLC Sfera Uslug plans to build a logistics complex with a total area of 120–130 thousand sq m in the Gatchina district of Leningrad region. The project has already been approved by the interdepartmental commission on the distribution of industry in the region. The complex will occupy an area of 30 hectares and will consist of nine terminals, designed for specific groups of products. The developer plans to invest up to \$70 million in the project.
- 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. About a half of these plots is in state or municipal

ownership. Another 50% include the private Brownfield and Greenfield plots, as well as those of the companies that are in the process of bankruptcy and the mortgaged property belonging to banks.

Supply

Two high-quality warehouse facilities were delivered in Q1 2014. The second stage of NordWay logistics complex with a total area of 40 thousand sq m (delivery permit has already been obtained back in December 2013) became operational. A refrigerator-warehouse of Admiral logistics group located in the industrial zone Gorelovo was delivered. The total area of this facility is 9.5 thousand sq m.

Thus, the total stock of high-quality warehouse space market has reached 2,277 thousand sq m, having grown by 2% in Q1 2014. The delivery volume of speculative space for the reported period amounts to

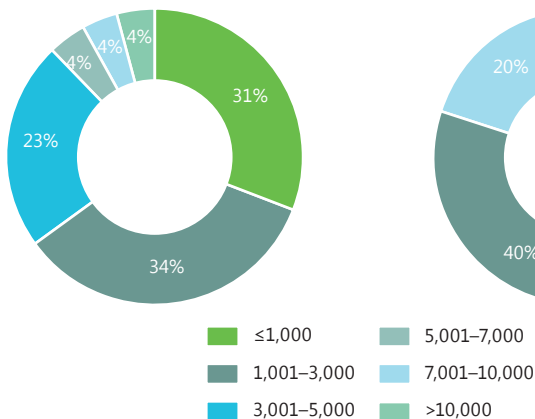


NordWay, Class A, industrial zone Shushary, Moskovskoe Hwy

36 thousand sq m, or 79% of the total delivery volume.

With the gradual introduction of new high-quality warehouse space, which began in the second half of 2013, one can witness a decline in the shortage of affordable finished

1,000–5,000 sq premises remain the most popular with the tenants of high-quality warehouse real estate, accounting for 57% of demand in this market segment



Source: Knight Frank St. Petersburg Research, 2014

leasable supply on the market. By the end of Q1 2014, the market of St. Petersburg is offering about 90–100 thousand sq m for lease.

Presently, there are 14 actively developing and completed projects in the industrial

Industrial facilities of up to 3,000 sq m were in the highest demand with potential tenants, accounting for 80% of total demand in Q1 2014

parks with a total area of 871 hectares in St. Petersburg and Leningrad region, of which 395 hectares are already sold or leased.

Demand

Demand for high-quality warehouse space remains consistently high. However, due to the emptying of several blocks in large warehouses and the delivery of several warehouse complexes with incomplete occupancy in the last two quarters, – the average market vacancy rate has grown by 3.4 percentage points comparing with the figure at the end of 2013.

Q1 can be called the shortest (due to Christmas holidays) and the least active quarter on the market. It is also for this reason that the volume of transactions for the period is always relatively low out of the total annual figure: about 16 thousand sq m were leased out in Q1.

The query analysis of potential tenants showed that more than 65% of demand is concentrated on the 1-year or shorter-term warehouse space lease.

The demand for industrial real estate is also consistently high. The average requested premises space in this segment is 2,800 sq m. At present, such requests can only be satisfied by the industrial complexes offering their own unused facilities.

Commercial terms

The lease rates for high-quality warehouse space remained stable in Q1 2014 and were 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.

With regard to the figures in the segment of industrial premises, here, just as earlier, every case is unique, though on average they are in the range 350–380 rub/sq m/month (including VAT, utilities and operating expenses).

Forecast

The total delivery volume of high-quality warehouse space intended for lease in 2014 will exceed 200 thousand sq m according to our prognoses.

This amount of space will help in meeting the demand that has accumulated over the previous two years of market stagnation. Furthermore, the delivery of this much space should prevent further growth in lease rates, which will allow them to stabilize at their current level (125–135 \$/sq m/year for Class A).

Due to the low stages of completion of most industrial parks, as well as almost complete lack of small-sized premises in them, we can confidently predict further growth of demand for finished industrial facilities as well as the deficit growth in this market segment.

High-quality warehouse space lease rates dynamics



Source: Knight Frank St. Petersburg Research, 2014

Key projects planned for delivery in 2014

Name	Location	Class	Area, sq m	Developer
Armada Park	industrial zone Shushary, Moskovskoe Hwy	A	75,000	Adamant Holding
Osinovaya Roshya (stage 3)	Vyborgskoe Hwy, Pargolovo	A	50,000	GK Sterkh
Troitskiy Logopark (stage 3)	295 Obukhovskoy oborony Ave	A	43,000	Resolute Asset Management LLP
STK	Bugry	B	27,000	LLC InvestBugry

Source: Knight Frank St. Petersburg Research, 2014



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
Singapore
South Korea
Thailand
Vietnam

Americas & Canada

Bermuda
Caribbean
Canada
USA

Investment and Sales

Nikolai Pashkov
General Director
nikolai.pashkov@ru.knightfrank.com

International Investments

Heiko Davids
Partner
heiko.davids@ru.knightfrank.com

Property Management

Dmitry Atopshev
Partner, Director
dmitry.atopshev@ru.knightfrank.com

Project Management

Andrew Zakrewsky
Partner
andrew.zakrewsky@ru.knightfrank.com

Offices

Marina Puzanova
Head of Department
marina.puzanova@ru.knightfrank.com

Industrial & Warehouses

Mikhail Tyunin
Head of Department
mikhail.tyunin@ru.knightfrank.com

Retail

Sergey Gipsh
Partner, Director, Russia & CIS
sergey.gipsh@ru.knightfrank.com

Residential

Ekaterina Nemchenko
Head of Department
ekaterina.nemchenko@ru.knightfrank.com

Strategic Consulting

Igor Kokorev
Associate Director
igor.kokorev@ru.knightfrank.com

Valuation

Olga Kochetova
Director, Russia & CIS
olga.kochetova@ru.knightfrank.com

Marketing, PR

Galina Cherkashina
Marketing Director
galina.cherkashina@ru.knightfrank.com

Market Research

Tamara Popova
Head of Department
tamara.popova@ru.knightfrank.com

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 370 offices in 48 countries across six continents.

Knight Frank has been a symbol of professionalism for tens of thousands of clients all over the world for 117 years. After 17 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.

This and other Knight Frank overviews can be found on the company website www.knightfrank.ru

ST. PETERSBURG

191025,
3B Mayakovskogo St
Alia Tempora BC
Phone: +7 (812) 363 2222
Fax: +7 (812) 363 2223

MOSCOW

115054,
26 Valovaya St
Lighthouse BC
Phone: +7 (495) 981 0000
Fax: +7 (495) 981 0011

© Knight Frank 2014

This overview is published for general information only. Although high standards have been used in the preparation of the information, analysis, view and projections presented in this report, no legal responsibility can be accepted by Knight Frank Research or Knight Frank for any loss or damage resultant from the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank in relation to particular properties or projects. Reproduction of this report in whole or in part is allowed with proper reference to Knight Frank.