

H1 2019
INDUSTRIAL AND WAREHOUSE
REAL ESTATE MARKET
Saint Petersburg

HIGHLIGHTS

As at the end of H1 2019, nine properties with the total area of 98 thousand sq m have been commissioned. This is 3.9 times more than in H1 2018. 87% of the new spaces are intended for lease.

The supply size continues to decrease, resulting in the vacancy rate reaching 3% at the end of H1 2019.

Due to a reduction in supply, rates for warehouse facilities showed an upward trend in all classes.

The aggregate amount of lease and sale transactions involving high-quality warehouse facilities in St. Petersburg and Leningrad Region was more than 160 thousand sq m.



Ilya Knyazev

Head of Industrial and Warehouse Real Estate and Land, Knight Frank St Petersburg

There is a large shortage of vacant spaces both in Class A and Class B. This has positive effects on the market development. It's good to see developers being proactive again and looking keenly at greenfield development projects. We can safely say that it is now the right time to implement speculative projects.

Demand for built-to-suit projects is also consistently high, as evidenced by key deals made in the first half-year involving a total area of nearly 100 thousand sq m. We are always ready to offer our clients the widest range of options tried and tested over the years, featuring premium locations and reliable building companies.

INDUSTRIAL AND WAREHOUSE REAL ESTATE MARKET. SAINT PETERSBURG

Key indicators. Dynamics*

	Class A	Class B
Total quality stock, thousand sq m	3,421 ▲	
including, thousand sq m	2,204	1,217
Total quality stock for lease, thousand sq m	1,876 ▲	
Delivered in H1 2019, thousand sq m	98	
including, thousand sq m	69	29
Total vacant supply, thousand sq m	139 ▲	
Net take-up for H1 2019, thousand sq m	132 ▲	
Volume of sales and lease transactions, thousand sq m including:	164 ▼	
sales and lease transactions in completed buildings	70	
built-to-suit transactions	94	
Vacancy rate, %	2.9 ▼	3.4 ▼
Asking rental rates, rub./sq m/month, incl. OPEX, VAT (20%)	500–650	400–550
Average asset-by-asset rents change in rubles, %	8	-1

* Comparison with Q4 2018 results
Source: Knight Frank St Petersburg Research, 2019

Supply

As at the end of the first half-year of 2019, 98 thousand sq m of high-quality warehouse facilities were commissioned in St. Petersburg and Leningrad Region. This is a 3.9 times increase compared to the same period of 2018. 71% of the delivery are accounted by two facilities: a new building in the Osinovaya Roshcha and the Logopark M10 warehouse facility.

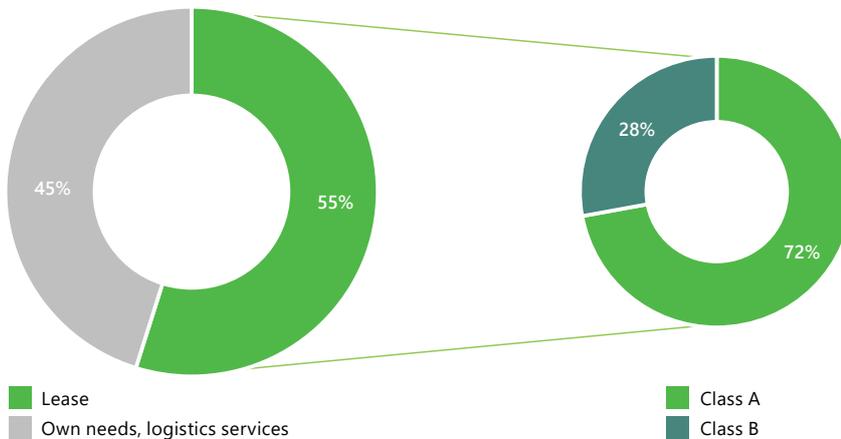
At the end of the first half-year of 2019, the total size of the market of high-quality

warehouse facilities in St. Petersburg exceeded 3.4 million sq m. This represents a 3% increase compared to the end of 2018 and a 6% increase from the first half-year of 2018. Spaces intended for lease accounted for 55%.

High demand and insignificant delivery of new speculative spaces have led to a reduced vacancy rate. The vacant supply of warehouse spaces totalled 104 thousand sq m, which is 25% less than at the end of 2018. The vacancy rate for Class A prop-

erties decreased by 0.1 p.p. compared to the end of 2018 to reach 2.9%. For Class B warehouses, a decrease in the vacancy rate was even greater (by 2.9 p.p.), with the resultant rate reaching 3.4%. At the end of the half-year, there was a limited supply of large spaces for rent as a considerable amount of vacant large spaces (with an area of 10 thousand sq m and more) available in a single warehouse facility had been almost fully depleted from the market.

Breakdown of warehouse properties by utilization scheme and class



Source: Knight Frank St Petersburg Research, 2019

Key events

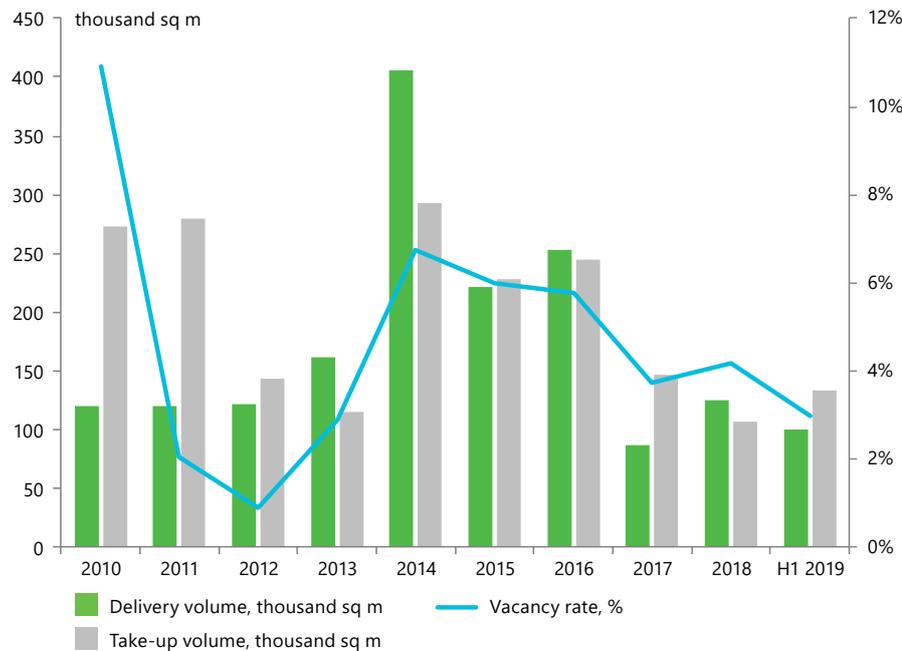
The first half-year of 2019 saw the announcement of several large warehouse construction projects. These are a multi-temperature distribution centre with an area of 70 thousand sq m for Lenta hypermarket chain; a production and warehouse facility with an area of 23.7 thousand sq m for Maersk; a multi-format property with an area of 38 thousand sq m for Project 111, a federal supplier of promotional goods and gifts; and a multi-temperature facility of GK RAUM with a total area of 15 thousand sq m. All of the announced projects are highly technological Class A facilities scheduled to be commissioned in 2021 or earlier.

Vilakone Oy, Finland, has launched a factory to produce Wille municipal vehicles on the grounds of the Orion Industrial Park.

Order of the Russian Federal Customs Service No. 515 dated March 27, 2019 approved requirements for infrastructure development in locations with a bonded warehouse equipped with an automated cell-type storage system.

The Ministry of Finance of Russia approved new requirements for warehouse facilities and storage technical specifications for production and circulation of alcohol and alcohol-containing products in consumer packages.

Dynamics of delivery, take-up and vacancy rates



Source: Knight Frank St Petersburg Research, 2019

Key warehouses complexes delivered in H1 2019*

Property	Location	Class	Type of use	Warehouse space, thousand sq m	Developer
Osinovaya roshcha	Bld 6, Gorskoe hwy	A	Lease	38	Sterh
M10	Bld 139, Moskovskoe hwy	A	Lease	31.4	SIRIN Development
Kamelot	Litera 2, bld 1, 2nd Verhny lane	B	Sale/Lease	6.2	Kamelot
Warehouse for the storage of natural stone	Bld 15, Lapinsky ave	B	Intended for own needs	3.4	NENSI

* An area of more than 3 thousand sq m
Source: Knight Frank St Petersburg Research, 2019

Demand

In the first half-year of 2019, the market demonstrated high demand for high-quality warehouse spaces, resulting in the net take-up of speculative warehouse spaces reaching 132 thousand sq m.

The first half-year of 2019 saw 23 transactions made on the market to rent or sell industrial and warehouse spaces with an area totalling 164 thousand sq m — a 5% decrease from the previous year. The average size of properties leased was 4.4 thousand sq m, which is 26% larger than in 2018. Another indicator of high demand was a significant number of large transactions (involving areas of more than 10 thousand sq m) made during the first six months of 2019. Two major BTS transactions were made by Lenta and Maersk, and a rental transaction was made by IVC Group.

As for the industry-based distribution of demand, the retail segment prevails in terms of the amount of spaces involved in consummated transactions (HY1 2019: 60%), continuing the trend which began in 2018. In the aggregate, retailers have occupied/bought about 98 thousand sq m, which is 20% more than throughout 2018.

Commercial terms

In the first half-year of 2019, the average weighted asking rental rate for Class A facilities was 556 rub./sq m/month, including VAT and operating expenses. This represents a 9% increase from the end of 2018. The decreased vacancy rates have expanded the range of available rental rates for Class A properties to 500–650 rub./sq m/month (including VAT and operating expenses) at its upper limit.

Breakdown of vacant spaces by location



Source: Knight Frank St Petersburg Research, 2019

Dynamics of asking rental rates*



* Including VAT and operating expenses
Source: Knight Frank St Petersburg Research, 2019



Osinovaya roshcha

Key sale transactions of warehouse and industrial real estate, concluded in H1 2019

Buyer/Tenant	Profile	Type	Address	Property	Class	Area, thousand sq m
Lenta	Retail	BTS	Moskovskoe hwy	M10	A	70
Maersk*	Logistics and transport	BTS	Bld 962, Sofiyskaya st	PNK Park Sofijskaya KAD	A	23.7
IVC Group*	Manufacturing	Lease	Utkina Zavod	MLP Utkina Zavod	A	10

* with Knight Frank acting as a transaction broker
Source: Knight Frank St Petersburg Research, 2019

The average weighted asking rental rate for Class B warehouses also showed an upward trend, on average by 6% as compared to that at the end of 2018 (476 rub./sq m/month, including VAT and operating expenses). The average rate was driven up by a higher upper limit of the range of available rental rates which reached 550 rub./sq m/month (including VAT and operating expenses).

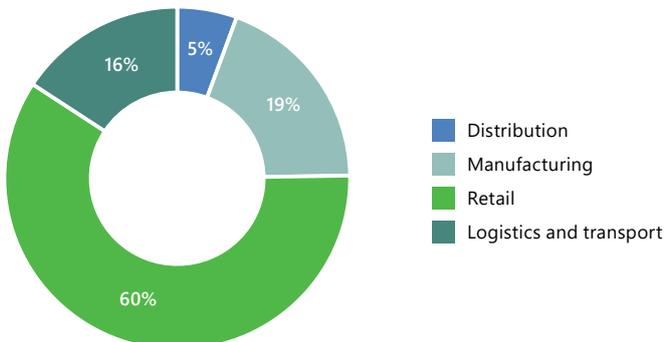
Forecast

Knight Frank expects the amount of high-quality warehouse spaces to be commissioned in St. Petersburg and Leningrad Region to reach about 130 thousand sq m by the end of 2019. Given that more than 70% of scheduled spaces have been already commissioned during the first half-year of 2019, the vacancy

rate will continue to go down and may settle at below 3% by the end of 2019.

In the current situation, we expect the trend of developing retail and distributor chains to continue. Given the limited supply, offering built-to-suit projects seems to be the most reasonable strategy for developers.

Breakdown of spaces involved in lease transactions, by tenant's sector



Source: Knight Frank St Petersburg Research, 2019

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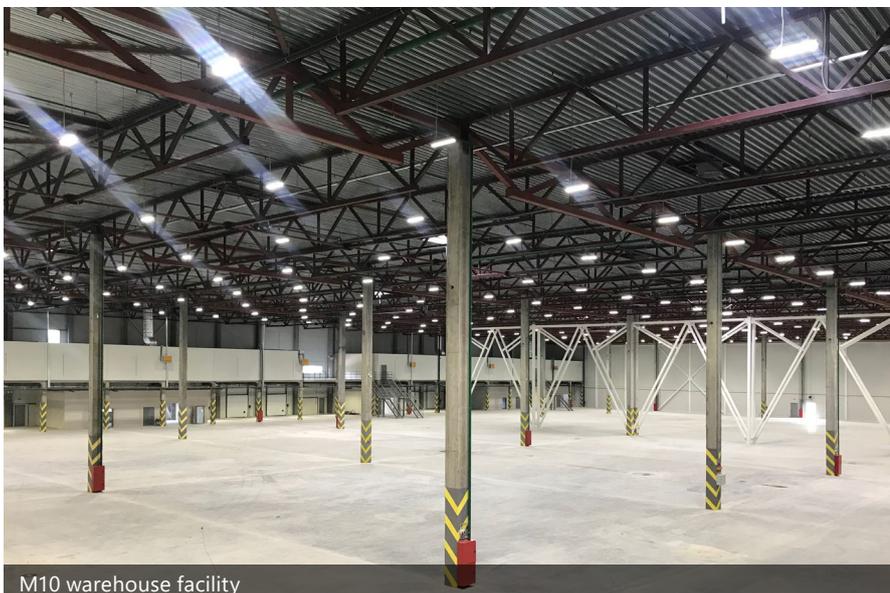
WAREHOUSE REAL ESTATE

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M10 warehouse facility



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