

11.9 thousand sq m
commissioned

2.6%
vacancy rate

177.5 thousand sq m
in transactions



Industrial and Warehouse Real Estate Market

through the prism of COVID-19

Saint Petersburg
H1 2020

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Key indicators. Dynamics*

	Class A	Class B
Total quality stock, thousand sq m	3,727 ▲	
including, thousand sq m	2,371	1,356
Total quality stock for lease, thousand sq m	2,268 ▲	
Delivered in H1 2020, thousand sq m	12 ▼	
Total vacant supply, thousand sq m	96 ▲	
including, thousand sq m	41	55
Vacancy rate, %	1.7 ▼	4.1 ▲
Net take-up, thousand sq m	225.6 ▲	
Volume of sales and lease transactions, thousand sq m including**:	177.5 ▲	
sales and lease transactions in completed buildings, sq m	91.6	
built-to-suit transactions, sq m	85.9	
Asking rental rates, RUB/sq m/month, incl. OPEX, VAT (20%)*	500-550	400-550
Asking rental rates, RUB/sq m/year, not incl. OPEX, VAT (20%)*	3,950	3,150

* Compared to 2019
 ** Compared to H1 2019
 *** Here and hereinafter, the asking rental rates for standard dry warehouse facilities

Source: Knight Frank St Petersburg Research, 2020



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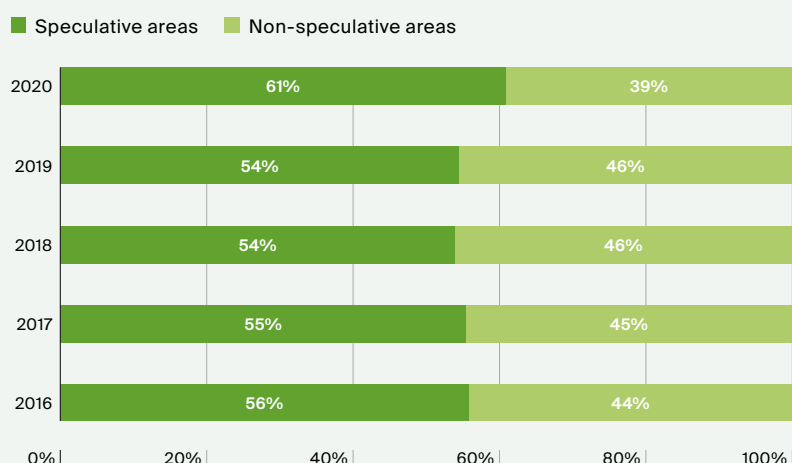
The performance in the first six months of this year enables us to safely state that the warehouse market has fully adapted to the new pandemic-related realities. Those developers who launched their speculative projects into construction in 2018–2019 have benefited. Currently, we are observing a shortage of high-quality ready-to-use offers with an area of over 10 thousand sq m, mainly in the south of the city. This, in turn, forces developers to focus on the built-to-suit model, with the percentage of transactions in this segment continuing to grow.

Supply

As at the end of the first six months of 2020, a total of 12 thousand sq m of new high-quality warehouse facilities were commissioned in St. Petersburg, of which 60% were built for internal use. These projects were commissioned during the first three months of the year, and none was commissioned in the period from April through June 2020.

The total leasable area of high-quality warehouse facilities is 3.7 million sq m, with the speculative market accounting for 61% of the total warehouse spaces. This was achieved (as compared to the performance in the first six months of 2019) thanks to the construction and commissioning of several large projects and by converting several high-quality sites previously used as production facilities, in particular, to serve as warehousing facilities. Until the end of the year, the speculative market will be

Dynamics of the share of speculative areas in the market



Source: Knight Frank St Petersburg Research, 2020

extended to include a new warehouse facility of Marvel Logistics.

As at the end of June 2020, the vacant supply was 96 thousand sq m of warehouse spaces. This is just a minor

increase (1.8%) as compared to 2019, which was mainly driven by delivery of new Class B properties. As a result, the vacancy rate on this segment grew 1.1 percentage points to reach 4.1%.

However, things were the opposite in the Class A segment, where the vacancy rate decreased by 0.8 percentage points and reached 1.7% at the end of the first six months of 2020.

In the period in question, the net take-up was 223 thousand sq m, which corresponds to the annual level of the previous year.

Unsettling expectations and forecasts among some of the market participants that began to develop in the early April gave way to conservative trends by mid-2020. The market did not get less active; there were no relocations; the area of leased spaces did not decrease; and the majority of tenants did their best to stay the course.

Demand

The first six months of 2020 saw high demand in the industrial and warehouse real estate market in St. Petersburg. In the aggregate, lease and sales transactions amounted to 177.5 thousand sq m, which is 8% more than in the first six months of 2019. The number of lease and sales transactions in completed projects increased by 30%, while the number of new construction transactions decreased by 9%.

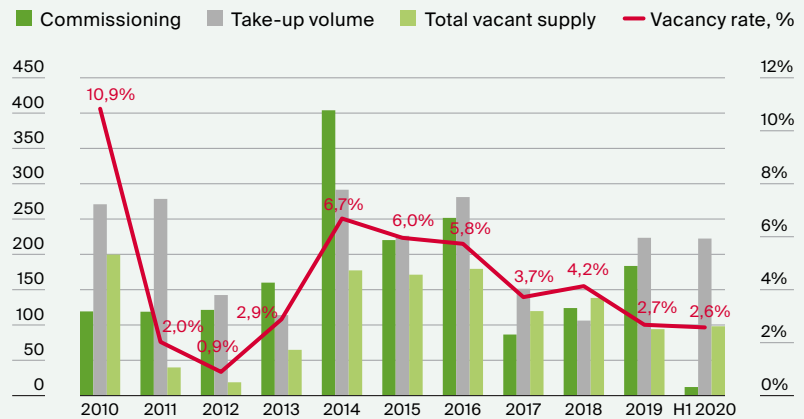
The most active players were federal operators who either extended their businesses in the region or entered the market of St. Petersburg for the first time. As a result, they accounted for 55% of all of the transactions.

Traditionally, most of lease transactions are made by retailers who account for 51% of the total amount as at the end of the first six months of 2020. At the same time, percentages of transactions by production companies and distribution companies have increased considerably (by 8 percentage points each) over the first half-year.

A survey conducted by Knight Frank St Petersburg in the period from the beginning of April to the end of June 2020 shows that the warehouse market remained active during the pandemic. The survey encompassed all prospective clients considering leasing or buying warehouse spaces in St. Petersburg who sought for help from Knight Frank in searching for properties. Notably, the

Dynamics of the key indicators of the market for high-quality warehouse areas

thousand sq m



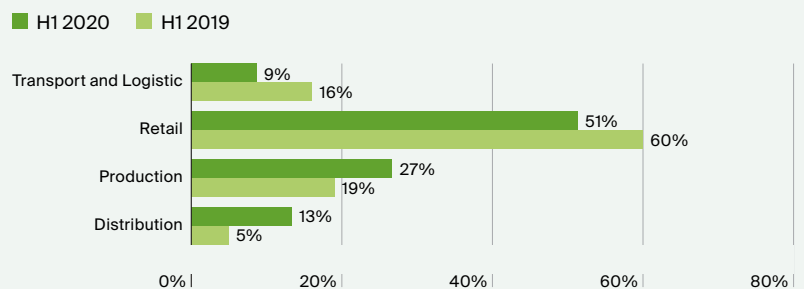
Source: Knight Frank St Petersburg Research, 2020

Facilities commissioned in H1 2020

Object purpose	Address	Class	Area, thousand sq m
For own needs	2B Volkhonskoe Hvw	B	5.8
Speculative warehouse	3A Domostroitel'naya St	B	5.1
For own needs	15/2A Devyatogo Yanvaryia St	B	1.0

Source: Knight Frank St Petersburg Research, 2020

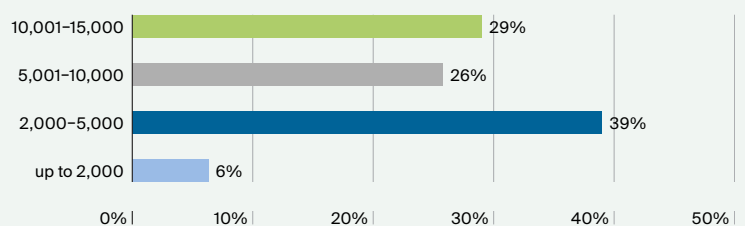
Dynamics of distribution of lease transactions by tenant profile



Source: Knight Frank St Petersburg Research, 2020

Distribution by area of premises

sq m



Source: Knight Frank St Petersburg Research, 2020

Largest deals concluded in the H1 2020

Company	Area, thousand sq m	Object	Class	Deal type
Eksklyuziv	37.0	RUSICH-Shushary	A	BTS
Fix Price*	35.4	PNK Park Sofiyskaya 2	A	BTS
Ozon*	28.7	Marvel Logistica	A	Rent
Petroprofil Plus*	12.0	PAKTUM Holding	B	Rent
FrutBuk	10.0	Food Market	A	BTS
Utkonos*	9.4	Interterminal	B	Rent

Source: Knight Frank St Petersburg Research, 2020

* Transactions involving Knight Frank

number of requests increased by 15% compared to the similar period of 2019.

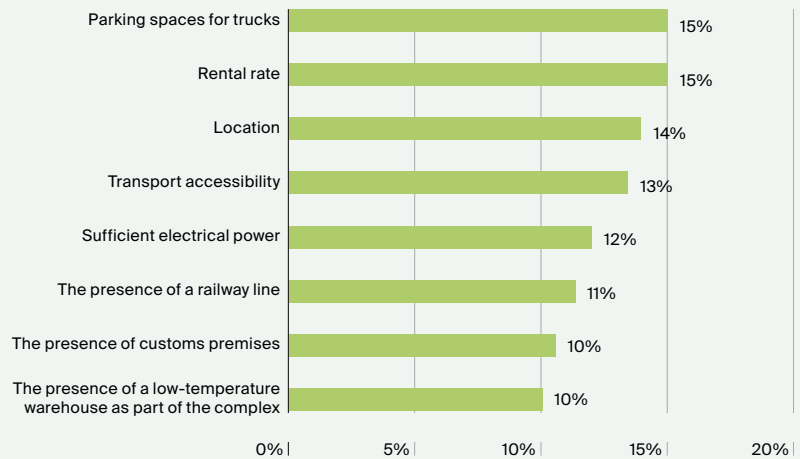
The survey results have shown that the majority of companies are interested in extending their businesses (43%). Other reasons cited by the respondents included relocation and improvement of the existing conditions (20% each).

85% of companies considered renting a dry and heated warehouse for themselves, while the others showed interest in refrigeration or freezer facilities. The most sought-after warehouse area range was from 2,000 to 5,000 sq m. The overwhelming majority of requests were for lease of available warehousing sites (70%), indicating an imbalance between the market and customer requests.

Along with the availability of sufficient parking space for trucks (15%) and rental rate (15%), location continues to play an important role in selecting a warehouse facility (14%), with more than 67% of companies considering the south of the city and suburban areas as a potential location for their facilities.

It is important to note that 46% of companies look for properties with rental rates within the range of RUB 451 to RUB 500 per square meter per month, including VAT and operating expenses. A significant share (38%) is accounted for by tenant looking for properties within the range from RUB 501 to RUB 550 per square meter per month, including VAT and operating expenses, showing that prospects are ready to pay high rates if the location is favorable and a warehouse facility has suitable parameters.

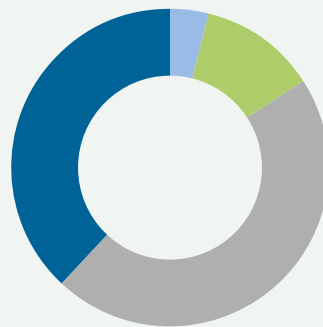
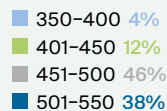
Distribution of important factors for choosing a warehouse



Source: Knight Frank St Petersburg Research, 2020

Distribution by ranges of rental rates that companies are willing to pay

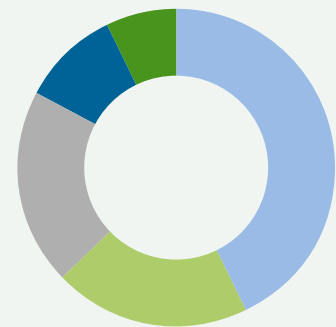
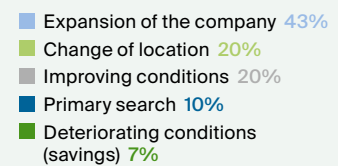
RUB/sq m/month*



* Including VAT (20%) and operating expenses

Source: Knight Frank St Petersburg Research, 2020

Distribution by search reason



Source: Knight Frank St Petersburg Research, 2020

Commercial terms

In the first half year of 2020, the average weighted asking rental rate for Class A facilities was RUB 529 per sq m per month, including VAT and operating expenses. This represents a 3% decrease from the end of 2019. The decrease is due to the exhaustion of high-quality and more expensive warehouse spaces in the available supply. The asking

rental rate range for Class A properties was RUB 500–550 per sq m per month, including VAT and operating expenses.

The average weighted asking rental rate for Class B standard dry warehouses was RUB 447 per sq m per month (including VAT and operating expenses). This is a 3% decrease compared to the end year of 2019, which was driven

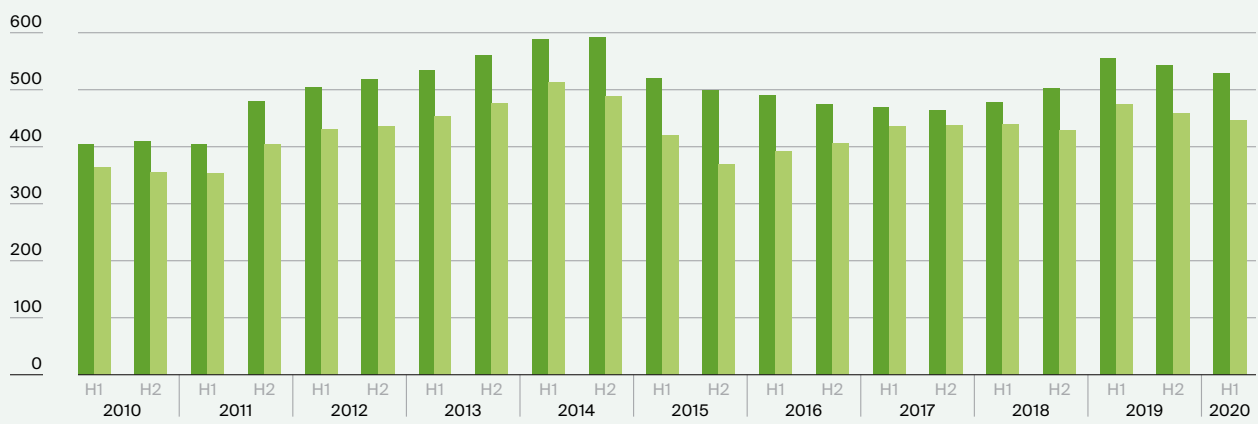
by expanding the market by delivery of facilities with offering rates of RUB 400 to RUB 440 per sq m per month (including VAT and operating expenses).

As for property-to-property dynamics, it should be noted that the asking rates did not change and remain at the level of the end of 2019.

Dynamics of weighted average asking rental rates

RUB/sq m/month*

■ Class A ■ Class B



Source: Knight Frank St Petersburg Research, 2020

* Per sq m per month, including VAT and operating expenses

Forecast

Regardless of the low commissioning rates in the first six months of 2020, the amount of high-quality warehouse facilities to be commissioned by the end of 2020 may reach 150 thousand sq m. At the same time, there are reasons to expect that the completion of some projects will be postponed to 2021.

The demand performance in the first six months provides a basis for adjusting previous forecasts and making an assumption that about 70 to 100 thousand sq m of industrial and warehouse spaces are to be further leased by the end of the year. Thus, the resulting annual demand may be as high as 240–270 thousand sq m.

The rental rates for properties are unlikely to change in the second half-year of 2020. This will be supported by low vacancy rates and increasing cost of construction.



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