

RESEARCH



2015 OFFICE MARKET REPORT

Saint Petersburg

HIGHLIGHTS

The supply increase of quality office space was 7% in 2015 when 161.6 thousand sq m of office space in the new business centres were put into operation.

The supply of vacant office space for lease in business centers of St. Petersburg was estimated at 254 thousand sq m at the end of the period. Most part of the supply (more than 70%) was in the business centers of Class B.

125 thousand sq m of quality office space were taken up mostly in Class A business centres during the year mainly due to large transactions closed by Gazprom structures.

In general, the vacancy rate of quality office real estate was virtually unchanged at 10.8% throughout the year.

There was a reduction in asking rental rates in Class A by 11% and in Class B by 3%.



Marina Puzanova
Head of Office Department,
Knight Frank St. Petersburg

“Despite the difficult economic situation, the office real estate market has shown pretty good results. The main indicator is active take-up of quality office space against the backdrop of the delivery of a large number of new projects. The main demand has been provided by Gazprom structures. The demand from companies of other sectors in connection with the overall optimization of the rental costs was multidirectional: the companies confident in the stability of their business allowed themselves to move to improve conditions, while the companies feeling the impact of the crisis not only moved to offices of smaller areas but also moved to buildings of the class below.

Nevertheless, the lack of growth in rental rates with the increase in construction costs entailed suspension or slowdown in the delivery of new facilities. Developers are not in a hurry to finish the construction without a guarantee of effective demand. The supply of quality ready-made space for large tenants is limited, and we expect the introduction of built-to-suit office projects, as well as the increase of the number of renovated buildings”.

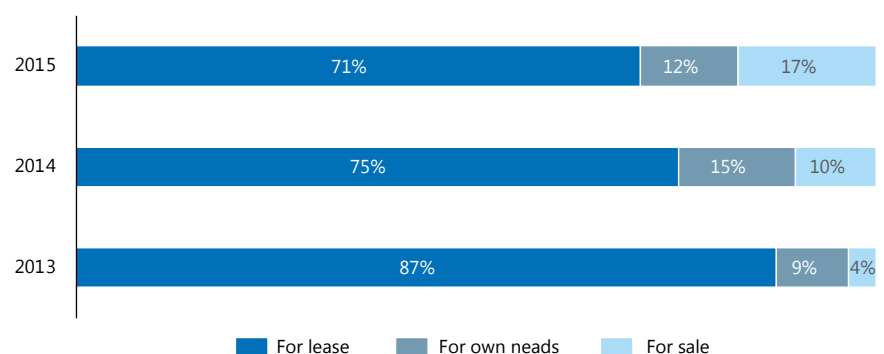
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Key indicators. Dynamics

	Class A	Class B
Total leasable office area, thousand sq m	2,338.7	
including, thousand sq m	767.1	1,571.6
Changes if compared to the end of 2014	▲ +12	▲ +5
Delivery in 2015, thousand sq m	161.6	
including, thousand sq m	81.9	79.7
Total area of vacant space, thousand sq m	253.6	
including, thousand sq m	71.9	181.7
The share of vacant space by the end of 2015	9.4%	11.6%
Asking rental rates in operating business centres, \$/sq m/year, excluding VAT and including OPEX	128–315	93–301
Average change of asking rental rate in operating business centres if compared to the end of 2014, %	▼ -11	▼ -3

Source: Knight Frank St. Petersburg Research, 2016

Distribution of new supply



Source: Knight Frank St. Petersburg Research, 2016

Key events

The construction of above-ground parts of the tallest building in St. Petersburg – business center Lakhta – has been started.

Large transactions on lease of office buildings entirely by Gazprom structures were performed in Eightedges, Fabrika, Victoria Plaza.

The investment transaction was completed by FORTGROUP company, which sold Class A Orlov business with total area of 5 thousand sq m, located in the Central district.

Empire holding company expanded its portfolio of commercial real estate, acquiring a historic building of the former Russian Industrial and Commercial Bank, located on 15, Bolshaya Morskaya Street. There will be a modern Class A office centre with total area of 10 thousand sq m after the reconstruction of the building.

Supply

The total leasable area of quality office centres of St. Petersburg exceeded the figure of 2.3 million sq m by the end of 2015.

161.6 thousand sq m were added to the office real estate market during 2015, where 81.9 thousand sq m belonged to Class A and 79.7 thousand sq m to Class B.

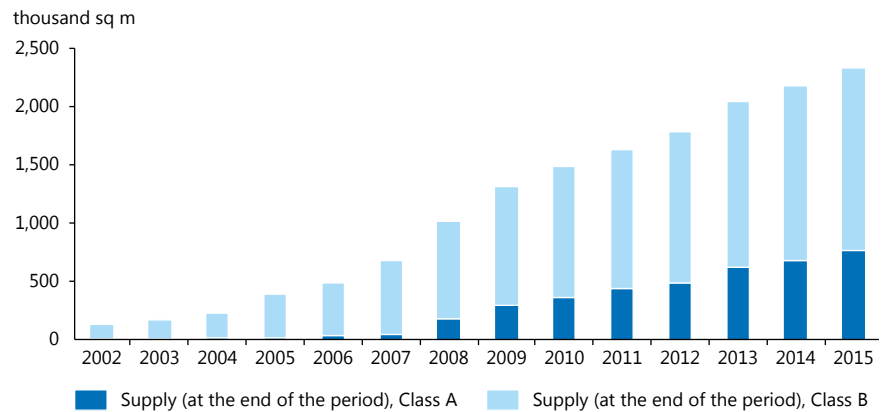
The trend to increase the proportion of projects offered for sale or by individual units has been strengthening in the past three years. Their share was 17% of the total new supply at the end of 2015. Generally,

they were small office buildings, a part of residential complexes.

2015 was characterized by high delivery of office space: the growth was 26% in relation to the indicator of 2014. This is due to the commissioning of fairly large office buildings, which account for half of new supply.

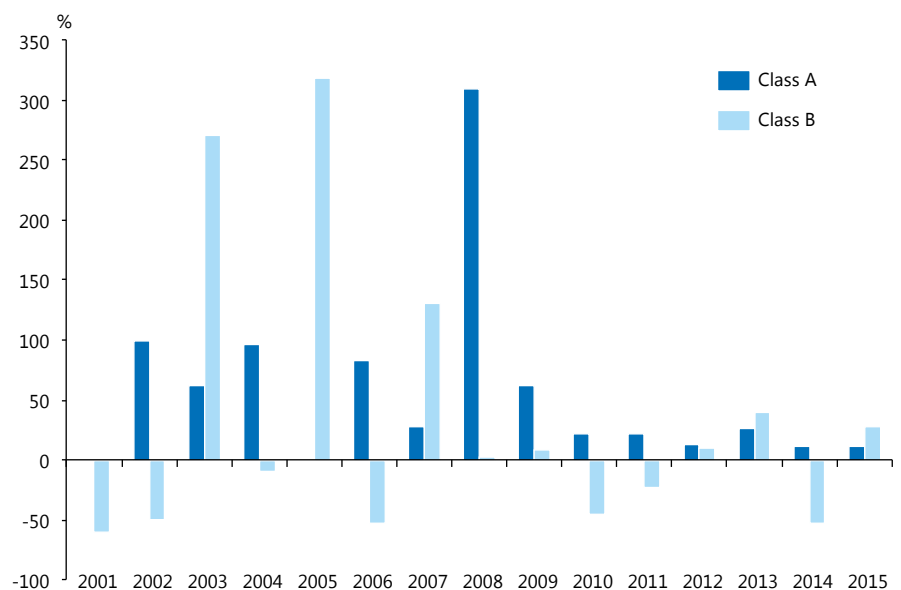
The largest new business centres delivered in 2015 became Flandria Plaza in the segment of Class A and MEZON PLAZA in Class B. The total area of each of the business centre was more than 30 thousand sq m.

Dynamics of total leasable area of quality business centres, 2002–2015



Source: Knight Frank St. Petersburg Research, 2016

Growth dynamics of office space by Classes, (growth against the last year), 2001–2015



Source: Knight Frank St. Petersburg Research, 2016



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Business centres of more than 5 thousand sq m delivered in 2015

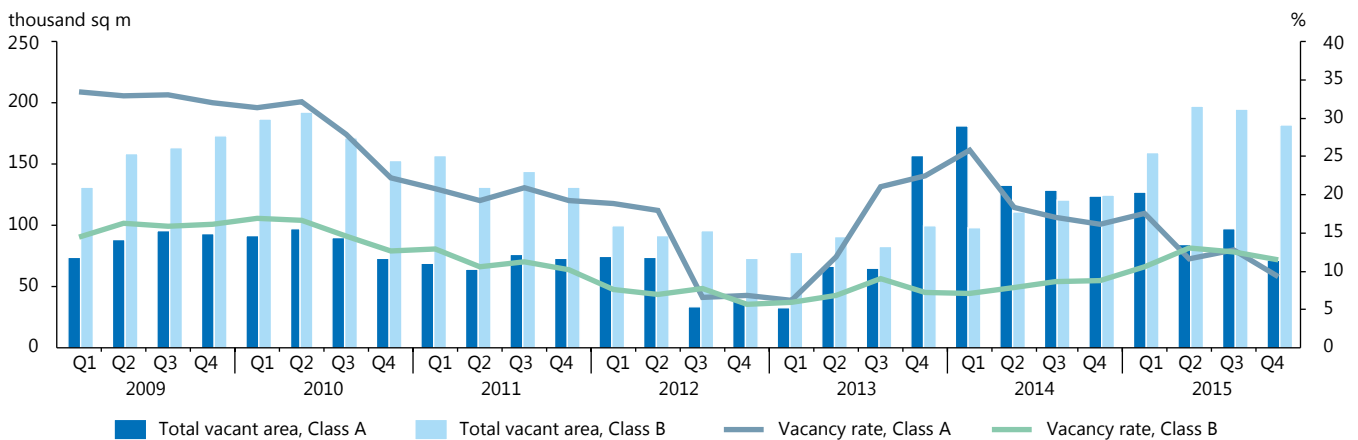
Property	Address	Class	Total office space, thousand sq m	Leasable office space, thousand sq m
Flandria Plaza	Bld. 3, 3, Tashkentskaya St	A	32.5	29.1
Zeppelin	Litera B, 6, Startovaya St	A	15.6	12.3
Gazprom Export**	2a, Ostovskogo Sq	A	15.5	11.7
Senator Kropotkina (2 nd phase)	1, Kropotkina St	A	10.0	6.7
Nevskiy, 58**	58, Nevskiy Ave	A	8.0	5.2
MEZON PLAZA	28, Bolshoy Sampsonievskiy Ave	B	30.7	22.6
SOVA	22, Marshala Tuhachevskogo St	B	12.3	9.0
As part of Tsarskaya Stolitsa residential complex*	2, Poltavskiy Lane / Kremenchugskaya St	B	11.0	8.8
Formida*	Litera B, 3, Energetikov Ave	B	9.4	8.2
Kushelevskaya, 13	Litera B, bld. 2, 13, Kushelevskaya Road	B	7.3	5.8

* Not exposed at the lease market, subject to sale by units

** Built for own needs

Source: Knight Frank St. Petersburg Research, 2016

Dynamics of key indices of office market, Q1 2009–Q4 2015

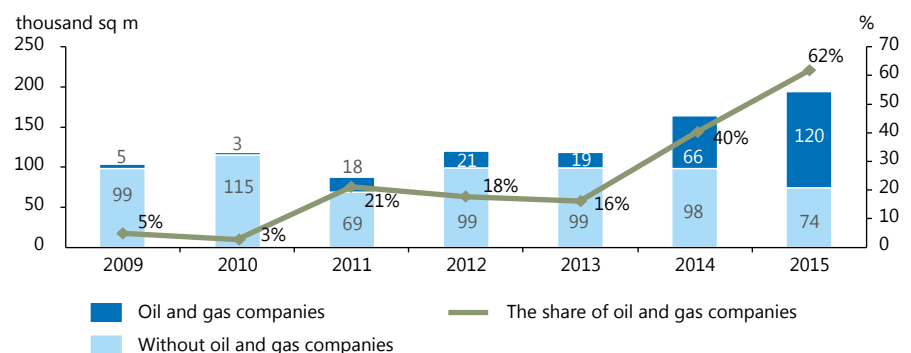


Source: Knight Frank St. Petersburg Research, 2016

Demand

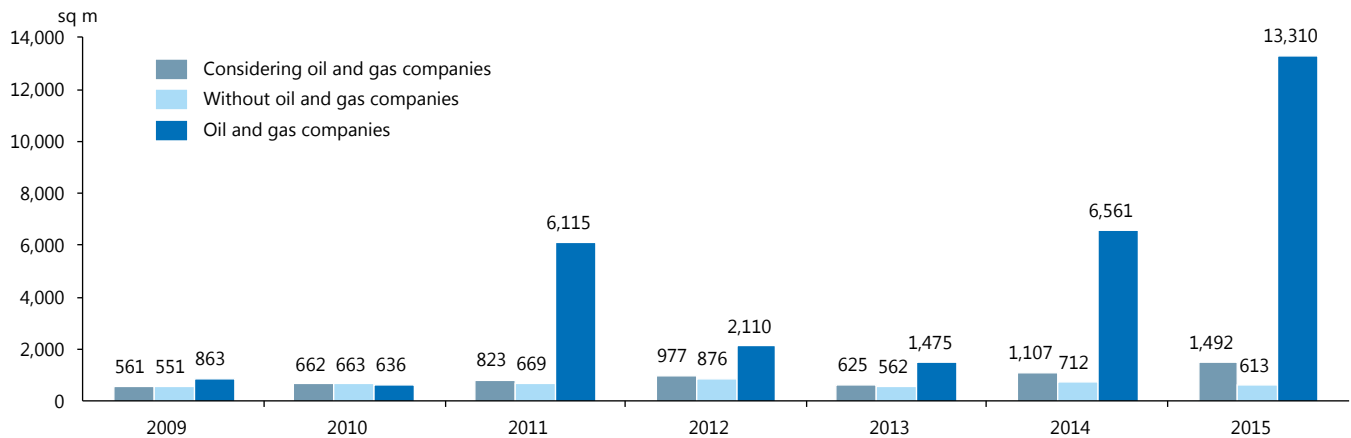
A successful move of Gazprom structures from Moscow exerted the most noticeable impact on the St. Petersburg office real estate market, it began seven years ago. Transactions were concluded most actively during 2015, which resulted in decrease of the vacancy rate in Class A office centres by 6.8 p. p. in comparison with the end of 2014. 9.4% of Class A office space is vacant according to the beginning of 2016. The rotation of tenants from office buildings of lower class also contributed to the reduction of the volume of Class A vacant

Dynamics of the index of total volume of transactions with and without companies of raw materials sector, 2009–2015



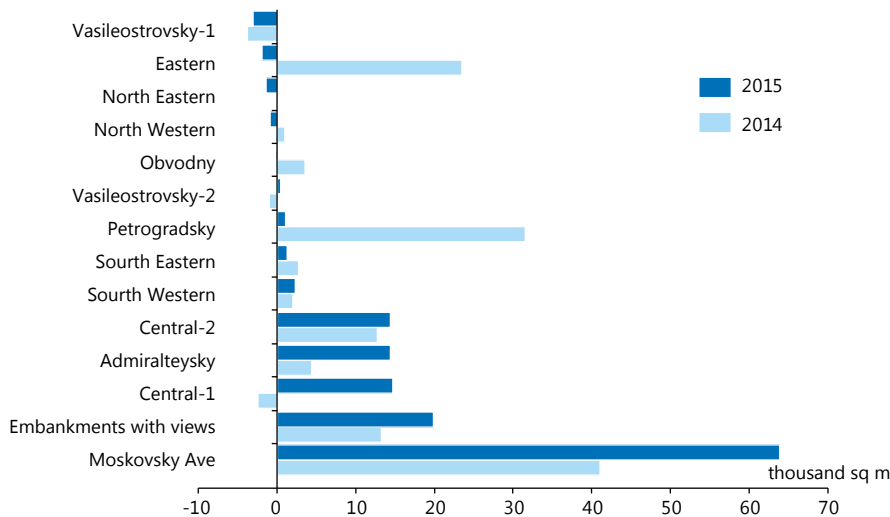
Source: Knight Frank St. Petersburg Research, 2016

Dynamics of the index of average area of transactions, 2009–2015



Source: Knight Frank St. Petersburg Research, 2016

Distribution of take-up by business districts of Saint Petersburg, 2014–2015



Source: Knight Frank St. Petersburg Research, 2016

space. These tenants were able to improve their conditions due to a drop in rental rates in modern quality projects.

The reverse situation occurred in Class B office centres, where the vacancy rate increased if compared to the end of 2014 by 2.8 p. p. and reached 11.6%. There were by 57 thousand sq m more office space vacant for lease at the end of 2015 if compared to the previous year. The increase of the indicator is due to the desire of certain tenants to reduce rental costs in connection with the general economic instability, so they chose less expensive premises of poor-quality office buildings.

Circa 254 thousand sq m of office space in the current business centers of St. Petersburg were vacant by the end of the year, where a large share of the business centres are of Class B – 72%.

Transactions of more than 3 thousand sq m, concluded in 2015

Tenant	Business Profile	Leased space, sq m	Property	Address
Gazprom	Oil/gas/raw materials	28,000	Viktoria Plaza	2, Pobedy Sq
Gazprom	Oil/gas/raw materials	20,100	Eightedges	Litera A, 45, Malookhtinskiy Ave
Gazprominform	Oil/gas/raw materials	7,411	Fabrika	140, Moskovskiy Ave
VIPS	Construction/Development/Engineering	7,000	Nevskaya Ratusha	Litera B, 11, Degtyarniy Lane
Baltiiskiy Bank	Banks and financial companies	5,000	Senator	37, Professora Popova St
Structure of Gazpromneft	Oil/gas/raw materials	3,115	Sinop	22, Sinopskaya Emb
Sperasoft	IT/Telecommunications	3,000	Energiya	5, Kievskaya St

Source: Knight Frank St. Petersburg Research, 2016



 Business centres of more than 10 thousand sq m to be delivered till the end of 2016

Property	Address	Class	Leasable office space, sq m
Victoria Plaza (2 nd phase)	Litera A, 2, Pobedy Sq	A	42,800
Renaissance Business Park	Litera B, 6/1 Smolyachkova St	A	20,939
Expoforum Congress and Exhibition Centre	Peterburgskoe Hwy, Shushary	A	20,000
FORT TOWER	139, Moskovskiy Ave	A	20,000
Senator Chapaeva (2 nd phase)	15, Chapaeva St	A	17,910
Office Building	Plot 1, Blagodatnaya St	B	24,563
GRAFFITI	Litera B, bld. 3, 15, Kondratievskiy Ave	B	16,272
Office Building	Plot 1, Bogatyrskiy Ave	B	10,599
Litera A, bld. 1, 8, Sofiiskaya St	Litera A, bld. 1, 8, Sofiiskaya St	B	10,480
Office Building	Litera A, 6a, Politekhnikeskaya St	B	10,400
Lakhta (2 nd phase)	Litera K, 4, Optikov St	B	10,287
Melnik	Litera K, 10, Melnichnaya St	B	10,000
Dom Pushniny	Litera B, 98, Moskovskiy Ave	B	10,000

Source: Knight Frank St. Petersburg Research, 2016

The total volume of lease transactions completed in 2015 was 194 thousand sq m, which is the highest level since 2009. However, 62% of all transactions were signed by the companies of raw materials sector of the economy, without them the sum of transactions was much lower – 74 thousand sq m.

The average area of the transaction increased by 1.3 times for the year, while the figure

for raw materials companies increased 2 times.

Net take-up amounted to 125 thousand sq m of quality office space in 2015, which was mainly concentrated in Class A – 77.5 thousand sq m or 62%.

Annual take-up was 3% lower than in 2014. Moskovsky Ave business district is still in great demand among tenants where

a lot of new supply is concentrated. The popularity of Central-1, Admiralteysky and Embankments with views Business Districts has grown. This fact is explained by a large number of new projects focused in these districts where there are large office units with rents not exceeding the market average.

Commercial terms

The weakening of the national currency and the unstable economic situation in the country resulted in a decrease in rental rates in quality business centres of St. Petersburg. There was a gradual reduction in asking rental rates both in Class A and B during the year. Class A witnessed 11% decrease in contrast to Q4 2014, Class B – 3%.

A fairly high level of vacant space also contributed to the fall of rental rates prompting landlords to make concessions to potential customers in the form of various discounts and bonuses. This, in turn, resulted in erosion of relatively inexpensive supply from the market, especially in Class B.

The average asking rental rates for Class A office centres reached 217 \$/sq m/year, while for Class B office centres – 158 \$/sq m/year by the end of 2015 (excl. VAT and incl. OPEX).

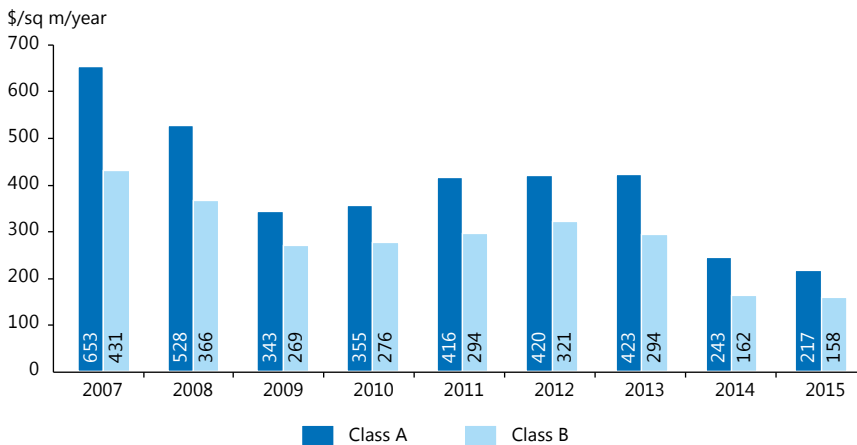
Forecast

A substantial amount of new office space is expected to be commissioned in 2016 in more than 30 buildings with total leasable area of 324 thousand sq m. More than 80 thousand sq m are built for own needs or offered for sale. It is worth noting that more than half of the premises under construction is already marketed, the projects are nearing completion.

The growth of new supply may increase the share of vacant space by 2–3 p. p. till the end of 2016 in case if the conservative scenario of office real estate development will be implemented and the aggregate annual take-up will be at the level of 100–120 thousand sq m.

We do not exclude a further slight reduction in rental rates for premises that are currently being marketed, their rental rates still exceed the expectations of potential tenants. The increase of rental rates are not expected in projects with high level of occupancy.

Dynamics of average rental rates, 2007–2015



Source: Knight Frank St. Petersburg Research, 2016

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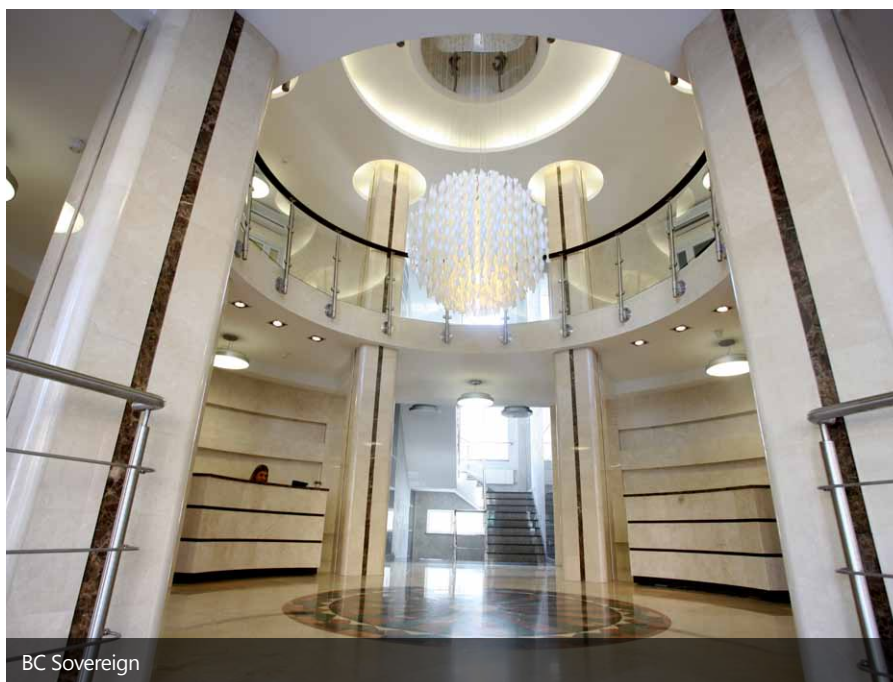
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