



H1 2015 OFFICE MARKET REPORT

Saint Petersburg

HIGHLIGHTS

H1 2015 saw a 3% increase in the supply of high-quality office space, with 59,800 sq m delivered in new office buildings.

The increase in supply was caused by rotation of tenants and opening of new properties.

Most tenants planning to move were looking for an office space of the same size or larger.

More office landlords started offering discounts and incentives to potential tenants.

The average asking rents have not changed much, remaining stable for office buildings with high take-up rates and dropping for properties experiencing problems in attracting tenants.

Key events

FORTGROUP sold its Orlov Class A office building in an investment deal. The property totals 5,000 sq m and is located in St. Petersburg's Central District.

H1 2015 witnessed a number of large leasing deals involving commodity companies (Gazprom subsidiaries), IT and telecom businesses (Avito, NSN) and manufacturers (GEROPHARM), as well as government agencies.

The period also saw the start of construction of the above-ground levels of Lakhta Center, the tallest building in St. Petersburg.



OFFICE MARKET REPORT SAINT PETERSBURG

Key indicators. Dynamics

	Class A	Class B
Total rentable office space, thousand sq m	2,239.6	
including, thousand sq m	722.2	1,517.4
Change versus Q4 2014, %	▲ +6	▲ +1
Delivered in H1 2015, thousand sq m	59.8	
including, thousand sq m	41.3	18.5
Total area of vacant office space, thousand sq m	282	
including, thousand sq m	85	197
Vacancy rate by the end of H1 2015, %	11.7	13
Asking rents at existing office buildings, RUB/sq m/month, including VAT and OPEX	900–2,500	600–2,300
% change in average asking rents at existing office buildings versus Q4 2014	▼ -5	▼ -4

Source: Knight Frank St. Petersburg Research, 2015

Supply

The gross leasable area of St. Petersburg's high-quality office buildings exceeded 2.2 million sq m by the end of H1 2015.

The first six months of 2015 saw the opening of 10 office complexes with a gross leasable area of 59,800 sq m. More than half of them (65%) are Class A offices.

Most of the new office complexes are renovated properties located in St. Petersburg's central districts.

The pace of delivery of high-quality office buildings has been slowing down in the past five years. Developers started revising their office projects, freezing some of them and rethinking the use of the others. The total area of Class A office space has been increasing by an average of 23% a year since 2009. Class B offices have been characterized by a downward trend: growth of the total space has been slowing



Marina Puzanova

Head of Office Department,
Knight Frank St. Petersburg

"H1 2015 saw an increase in the vacancy rates in high-quality office buildings. This was caused by rotation of tenants and their willingness to cut rental costs, as well as by the tenants' and landlords' wait-and-see strategy, which affected the speed of decision making.

Tenants moving away from Vasilyevsky Island have become a major trend. The decision to leave the district was caused by the existing and worsening transport accessibility problems, which were aggravated by one-year closure of Vasilyevskaya metro station. Besides, companies were leaving clearly overrated offices: landlords failed to give expected discounts to tenants whose lease contracts were expiring and lost some of their clients. The vacant space is now offered at average market rates.

Nonetheless, despite the increasing supply and extended marketing period, liquid properties did not face any problems with take-up.

Lease re-gearing was another big trend in H1 2015. Tenants tried to take advantage of the market situation and negotiate better terms, and many of them succeeded".



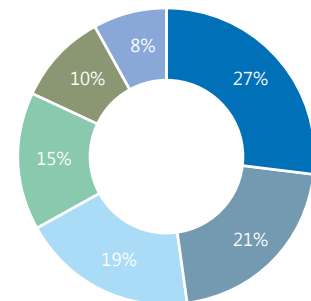
down by an average of 19% year-on-year. Despite this trend, H1 2015 saw a 35% increase in the delivery of high-quality office space versus the same period last year.

With 16% of the city's high-quality office space (359,000 sq m), the Moskovsky Ave business district is still at the top in terms of gross leasable area in St. Petersburg. The district's popularity is due to its location: proximity to the airport and easy access to the city centre and suburbs.

Availability of office space in St. Petersburg totalled 282,000 sq m as of the end of H1 2015. Almost half of it (46%) was represented by properties brought into the market after 2012. Office buildings that failed to attract tenants primarily because of the landlords' unrealistic office rent expectations made up a significant portion of the supply. Other major trends included an increase in the availability of offices earlier occupied by landlords, rotation of tenants and a slowdown in the overall activity in the market.

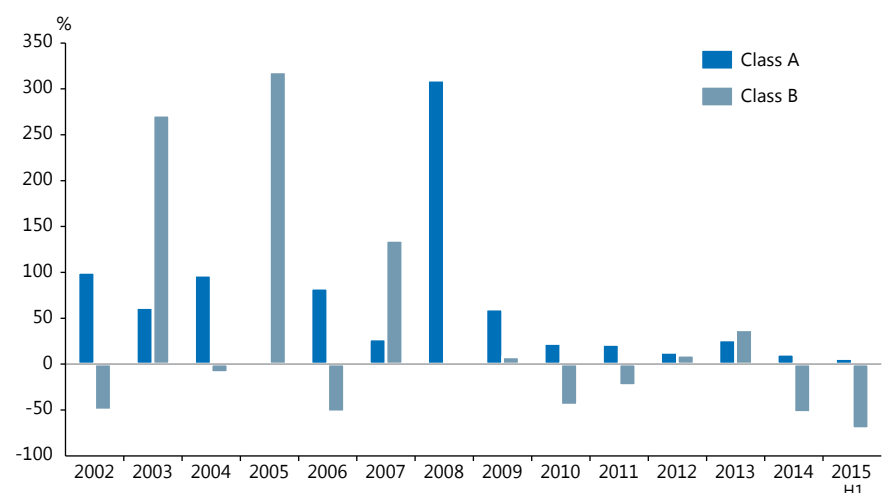
The Moskovsky Ave and Central-2 districts have the largest stock of available office space. A significant portion of the total supply in the Moskovsky Ave business district is represented by Leader Tower, which has been marketed for a long time and has offered discounts on rents since the start of 2015. The Central-2 business district also has plenty of available office space, which is caused by rotation of tenants and slow take-up.

New stock by districts and types



Source: Knight Frank St. Petersburg Research, 2015

Year-on-year increase in the delivery of office space, 2002–H1 2015



Source: Knight Frank St. Petersburg Research, 2015

Office buildings delivered in H1 2015

Name	Address	Class	Total area of office space, thousand sq m	Leasable area of office space, thousand sq m
Not for lease				
Zeppelin	6B Startovaya St	A	16	12.3
Gazprom Export office building	2 Ostrovskogo Square	A	15.5	11.7
Krümmelhaus	12 Bolshaya Posadskaya St	B	6.4	3.5
Kersten Haus	25 Krasnogo Kursanta St	B	2	1.5
Speculative developments				
Senator	1 Kropotkina St	A	9.9	6.7
Assambleya	12 Mayakovskogo St	A	2.4	1.8
Au Pont Rouge (Phase 2)*	73–79 Moyka River Embankment	A	5.6	4.2
Au Pont Rouge (Phase 3)*	73–79 Moyka River Embankment	A	2.3	2
SOVA	22 Marshala Tukhachevskogo St	B	12.3	9
Senator	60B Moskovsky Prospekt	B	6	4.5
BUSINESS PALAZZO	29 Ligovsky Prospekt	B	3.2	2.8

* Au Pont Rouge mixed-use complex was opened in late 2012; however, some new premises redesigned as office space have been recently brought into the market

Source: Knight Frank St. Petersburg Research, 2015

Demand

Tenants planning to move have become less decisive when choosing a new office. The decision-making process now takes up to six months. Also, it is worth noting that tenants have become more scrupulous: they pay attention to utilities, including air conditioning and ventilation systems, finishing and how presentable the office building looks.

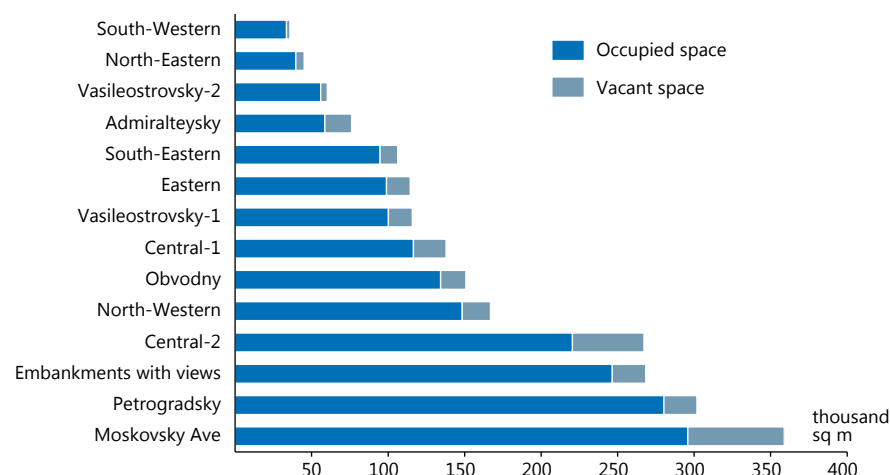
Despite the challenging economic environment, more than half of tenants willing to move were looking for an office space of the same size or larger.

72,300 sq m of high-quality office space was taken up in H1 2015, including built-to-suit developments. Class A office space accounted for 82% of the total take-up. As it usually happens, Gazprom companies played the key role in it. Office landlords offered favourable terms to potential tenants, which facilitated the take-up.

With their state-of-the-art office buildings for demanding customers, Moskovsky Ave, Central-1 and embankments with fine views were the most popular business districts in H1 2015.

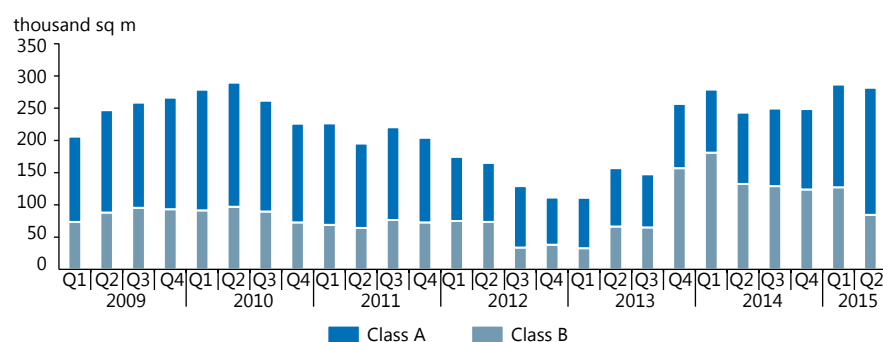
Take-up exceeded the delivery rate by 20% in the first six months of 2015, resulting in changes in the vacancy rate, which was 11.7% in Class A office buildings and 13% in Class B office buildings at the end of the period.

Gross leasable area by St. Petersburg business district, H1 2015



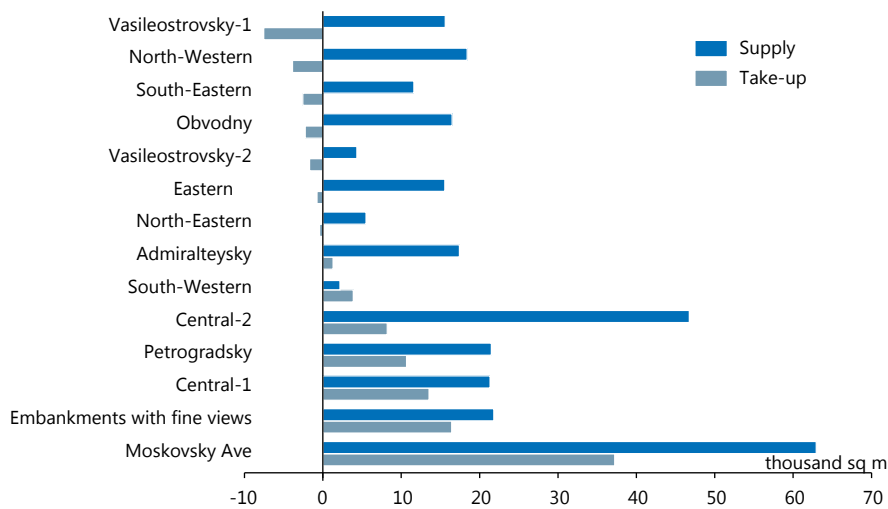
Source: Knight Frank St. Petersburg Research, 2015

% change in available office space, Q1 2009–Q2 2015



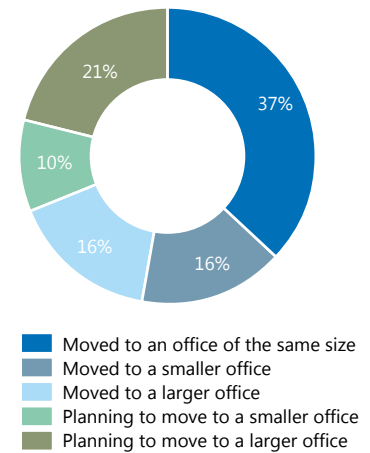
Source: Knight Frank St. Petersburg Research, 2015

Take-up and supply by business districts, H1 2015



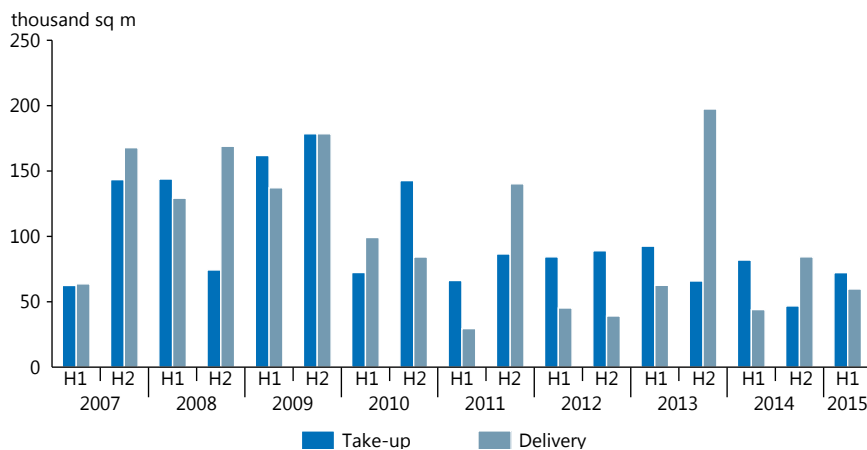
Source: Knight Frank St. Petersburg Research, 2015

Knight Frank's customers who have moved or are planning to move within the next six months



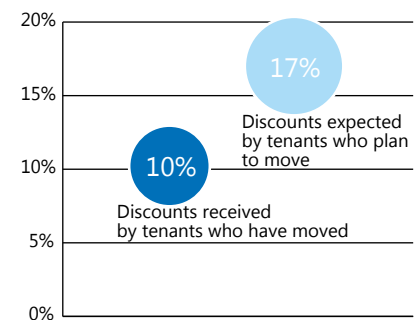
Source: Knight Frank St. Petersburg Research, 2015

Delivery and take-up of high-quality office space, H1 2007–H1 2015



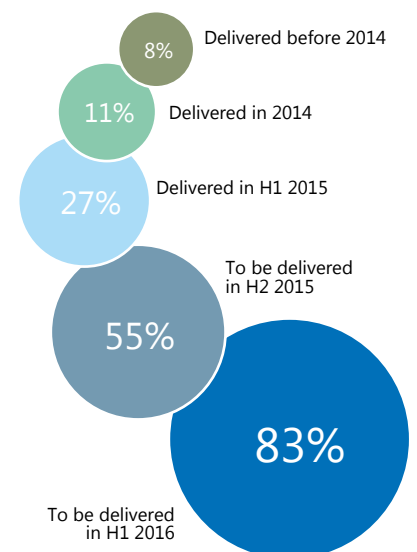
Source: Knight Frank St. Petersburg Research, 2015

Actual and expected discounts on office rents



Source: Knight Frank St. Petersburg Research, 2015

Vacancy rate



Source: Knight Frank St. Petersburg Research, 2015

Commercial terms

Q1 2015 saw a decline in asking rents for St. Petersburg's high-quality office buildings which experienced difficulties in attracting tenants (mainly due to the landlords' unrealistic rent expectations and an overall slowdown in business activity). Rents for office buildings with a vacancy rate below 2–3% remained unchanged.

Landlords sought to reach a compromise over commercial terms with potential tenants, which brought the average rents very close to the tenants' expectations. Discounts on rents averaged 10% for lease contracts signed over the past six months and 11% for office space that remained vacant by the end of H1 2015.

As of the end of H1 2015, the weighted average asking rent for Class A offices was 1,445 rub./sq m/month, including VAT and operating expenses. Rents fell in office buildings with rates earlier denominated in foreign currencies and offices brought into the market last year. Discounts reached 30% in some cases.

The weighted average asking rent for Class B office space was 1,069 rub./sq m/month, including VAT and operating expenses, as of the end of H1 2015. The figure did not change significantly from the previous periods.

H1 2015 saw a decline in asking rents on poorly located office buildings and offices situated far from the city's business centre. Such offices make up the bulk of supply.

Office complexes with an area of over 10,000 sq m due to be opened in 2015

Name	Address	Class	Rentable office space, thousand sq m
Flandria Plaza	1 Tashkentskaya St	A	24.4
Renaissance Business Park	6/1 B Smolyachkova St	A	20.9
MEZON PLAZA	28 Bolshoy Sampsonievsky Prospekt	B	22.6
Ergo	5 Kiyevskaya St Bldg 3	B	17
Lakhta (Phase 2)	4K Optikov St	B	10.3
MegaPark (Phase 2)	22 Zastavskaya St	B	11.3
Unnamed	1 Kushelevskaya Road	B	8.9
Unnamed	6a A Politekhnikeskaya St	B	7.5

Source: Knight Frank St. Petersburg Research, 2015

Forecast

We expect about 250,000 sq m of high-quality office space to be delivered by the end of 2015, including speculative and built-to-suit developments, as well as offices offered for sale. If concerns about possible worsening of the economic situation do not force the developers to push back completion dates, the market will get 160,000 sq m of new office space by the end of 2015.

We may see further reduction in rents on properties experiencing difficulties with take-up, which may lead to an increase in supply across the market. Landlords of taken up offices will continue offering various incentives to retain rotating tenants, which may slightly reduce the average rent as well. Rents on office space in buildings with high take-up rates may slightly increase due to the annual indexing.

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