

RESEARCH



H1 2016 OFFICE MARKET REPORT

Saint Petersburg

HIGHLIGHTS

Total leasable area growth amounted to 5%, 136.1 thousand sq m were put into operation.

Vacancy rate fell to the lowest level since 2013 – 6.8% in Class A. The take-up level was mainly formed by tenants cooperating with Gazprom.

The Class B vacancy rate rose to 11.9% mainly due to the delivery of new facilities.

Significant rents changes were not recorded against Q4 2015.

An increase of Russian and foreign companies' interest towards the investment-attractive facilities was registered.



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

"The situation in the office market is stable in general and there is even a local supply shortage when it comes to specific locations and premises with specific characteristics. For example, now it is a challenging task to find suitable options for companies searching for large units in Class A business centres. However, developers are still in no rush to build as new construction is still expensive for most tenants. Large non-raw companies are considering redeveloped facilities, where landlords may offer reasonable rents".

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Key indicators. Dynamics

	Class A	Class B
Total leasable area, thousand sq m	2,769*	
including, thousand sq m	914.9	1,854.1
Changes against Q4 2015, %	+9 ▲	+3 ▲
New delivery of H1 2016, thousand sq m	136.1	
including, thousand sq m	74.5	61.6
Total vacant stock, thousand sq m	283	
including, thousand sq m	62	221
Vacancy rate by H1 2016 end, %	6.8 ▼	11.9 ▲
Asking rental rates in operating business centres, \$/sq m/year, incl. OPEX, net of VAT	128–303	90–242
Average asset-by-asset rents change in operating business centres against Q4 2015, %	+2 ▲	0

Source: Knight Frank St. Petersburg Research, 2016

* The calculation procedure of the total office stock has been adjusted, hereinafter historical data are given as amended.

Key events

Storm Real Estate Fund sold Grifon House (7,000 sq m) to its tenant for \$13.2 million.

Stroygazconsulting leased the second building of Flandria Plaza (14,800 sq m) for its business units.

One IT & Telecommunications company leased premises of over 8,000 sq m in Class B Energo Business Centre.

Supply

The total leasable area exceeded 2.7 million sq m in H1 2016.

17 office buildings (136.1 thousand sq m GLA) were commissioned, half of them related to Class A rating. However, only 50 thousand sq m were listed on the open market since most of the business centres were built for the own needs of the companies or for individual tenants.

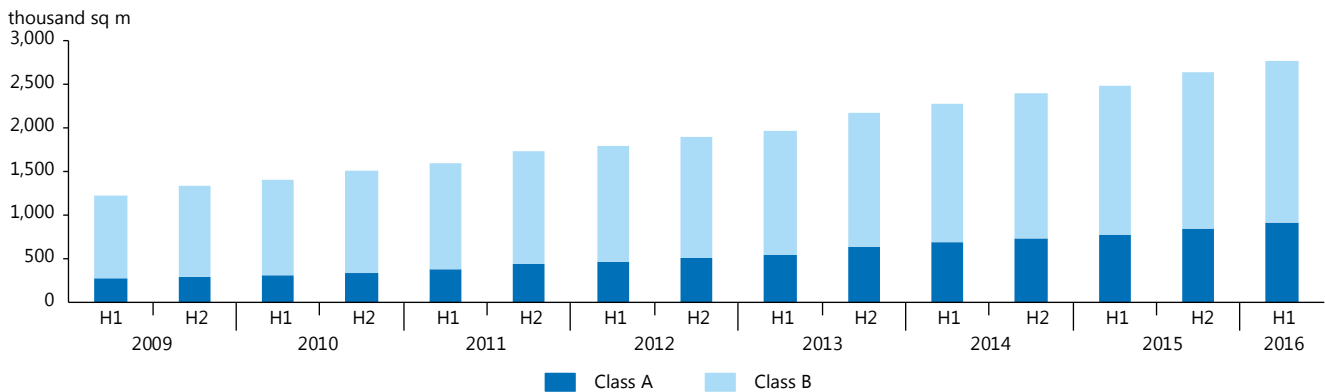
The leasable area of business centres put into operation in H1 2016 is mainly concentrated in the Central district of St. Petersburg. 3 high-quality facilities were put into operation in Pushkinsky district: two Class A business centres, part of Expoforum exhibition and convention centre and Perspektiva Class B business centre. There was no supply of Class A and B premises in this district before 2016.

The commissioning dates of a significant number of projects at the initial construction stages or at design stages were shifted or their construction was postponed due to the high degree of uncertainty in the economy and the lack of ability to attract debt financing. Investors have taken a wait-and-see attitude focusing on built-to-suit projects.

Moskovsky prospect business district is the leader in the total supply of leasable office space. Its share was 18% of the total office space of St. Petersburg by the end of Q2 2016. About 60% of leasable supply are concentrated in five business districts: Moskovsky Prospect, Central-1, Central-2, Petrogradsky and Embankments with views.

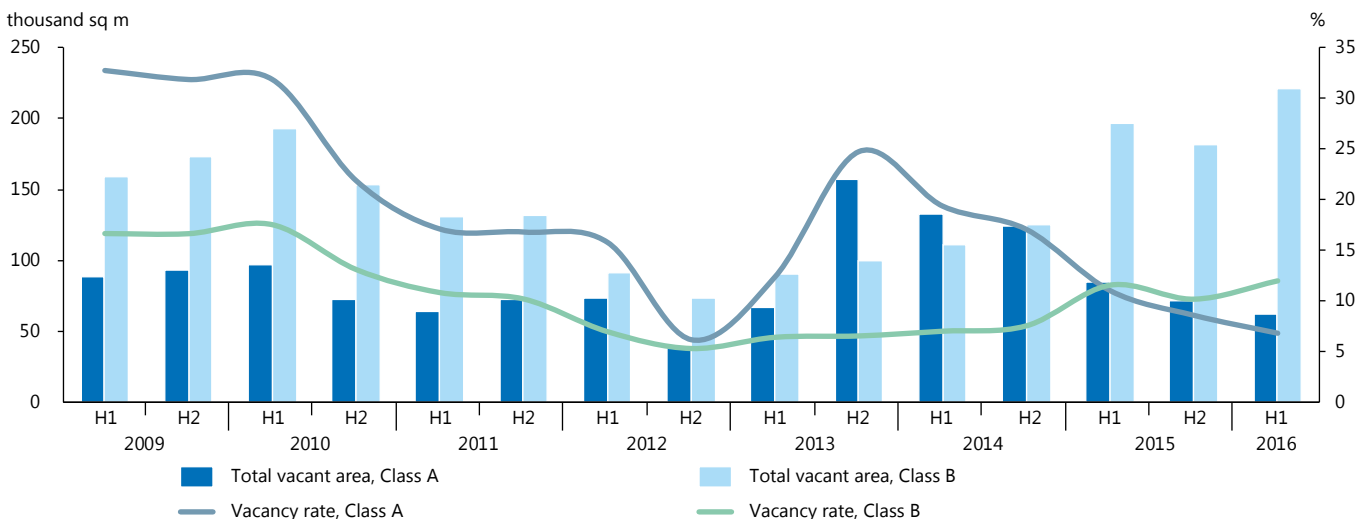
The supply of vacant office space was equal to 283 thousand sq m, its 22% corresponded to Class A offices and 78% to Class B.

Total leasable area dynamics



Source: Knight Frank St. Petersburg Research, 2016

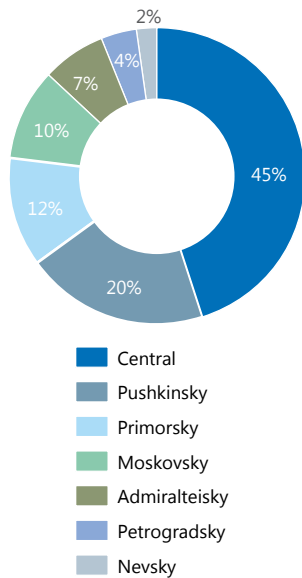
Dynamics of supply area and vacancy rate



Source: Knight Frank St. Petersburg Research, 2016

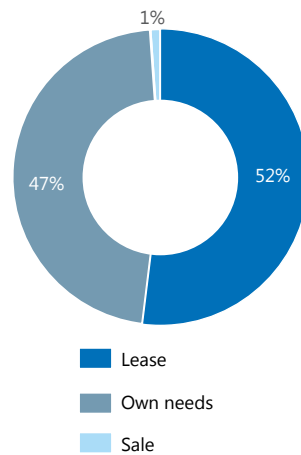
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Leasable area distribution by districts in business centres delivered in H1 2016



Source: Knight Frank St. Petersburg Research, 2016

Development purpose of business centres delivered in H1 2016



Source: Knight Frank St. Petersburg Research, 2016

Demand

The companies collaborating with Gazprom are the most demanding in office space search in St. Petersburg and the largest H1 transactions were completed by such tenants.

Net take-up amounted to 56 thousand sq m in H1 2016.

There was a record decline in Class A vacant space during the reporting period due to the completion of a number of major transactions. Commissioning of projects built for the needs of individual tenants also did not affect the vacant supply growth. The share of vacant space in Class A business centres was 6.8%, which is 2 p. p. lower against the end of 2015 and by 4 p. p. less than in Q2 2015.

The vacancy rate in Class B was equal to 11.9%, which is 2 p. p. higher against the end of 2015 and is comparable to the rate of H1 2015.

Moskovsky Prospect business district was the most popular in H1 2016, where there

Largest business centres delivered in H1 2016 (leasable area >5,000 sq m)

Property	Address	Class	Total office area, thousand sq m	Leasable office area, thousand sq m
Not listed on the lease market:				
Nevskaya Ratusha (2 nd phase)	Litera A, 20, Novgorodskaya St	A	82	53.3
Business centre as part of Expoforum exhibition and convention centre	Litera A, bld. 2, 66, Peterburgskoe Hwy	A	15.4	10.8
Business centre as part of Expoforum exhibition and convention centre	Litera A, bld. 1, 66, Peterburgskoe Hwy	A	14.9	10.4
Nevsky, 68	68, Nevsky Ave	B	8.6	5
Listed on the lease market:				
Megapark (2 nd phase)	22, Zastavskaya St	B	17.6	14.1
Lakhta (2 nd phase)	Litera K, 4, Optikov St	B	12.8	10.3
Perspectiva	Litera A, 1, Kokkolevskaya St (Shushary, Peterburgskoe Hwy)	B	7.7	6.1
Novoorlovsky	Litera A, 74, road to Kamenka, Pargolovo village (plot 11, Novoorlovskaya special economic zone)	B	8.1	5.1

Source: Knight Frank St. Petersburg Research, 2016

were several major transactions in for the period under review:

- ♦ Stroygazconsulting company consecutively leased two Class A buildings of Flandria Plaza (total leasable area – 29 thousand sq m).
- ♦ One IT & Telecommunications company leased premises of over 8 thousand sq m in Class B Energo Business Centre
- ♦ There was a transaction to lease about 2 thousand sq m by the company from raw material sector in Class A Renaissance Premium business centre.

There was an increasing interest of Russian and foreign companies to the investment-attractive facilities within six months. In addition to the weakening of the national currency it is also associated with the ability

to purchase projects whose landlords have decided to sell their assets. The Norwegian Fund – Storm Real Estate – sold Grifon House (7,000 sq m) to its tenant – PSI Cro – for \$13.2 million. This transaction was quite remarkable at the market.

Commercial terms

No substantial fluctuation of rents was observed in H1 2016.

The average asking rental rate in Class A business centres amounted to 227 \$/sq m/year, incl. OPEX, net of VAT. There were minor asset-by-asset adjustments of this rate by 1–2%.

No significant changes were registered in Class B business centres, where the average

asking rental rate totaled 166 \$/sq m/year, incl. OPEX, net of VAT. Lower rates are fixed in business centres entering the market in 2016 – 155 \$/sq m/year, incl. OPEX, net of VAT. Some landlords offered individual discounts in the first six months of the year, especially when it came to large premises.

The availability of final fit-out is one of the key parameters in tenants' requests influencing the decision to move to another office. At present, companies are not willing to invest additionally in fit-out of premises if a landlord does not compensate these costs in future lease payments. Moreover, tenants carefully study all additional costs, which may affect the final rental rate of the premises. These factors include operating expenses (if not included in the rental rate) and parking lease rate.

Saint Petersburg submarket data. Key indicators

Submarket	Supply volume, sq m*	Vacancy volume, sq m	Average rental rates**, \$/sq m/year, Class A	Average rental rates**, \$/sq m/year, Class B
Moskovsky Prospect	425,928	43,499	233	173
Petrogradsky	309,695	18,481	241	181
Embankments with views	290,904	33,042	235	173
Central-2	233,367	38,672	241	191
North-Western	192,946	31,564	197	159
Obvodny	157,052	24,072	236	144
Central-1	142,281	18,105	262	217
Eastern	140,208	21,321	–	139
South-Eastern	115,125	16,969	–	153
Vasileostrovsky-1	106,940	12,466	159	138
Admiralteisky	78,103	11,582	227	162
Vasileostrovsky-2	60,270	2,810	136	131
North-Eastern	42,121	6,148	–	150
South-Western	35,775	2,681	–	152
Outside area	27,326	2,018	–	166

* Excluding business centres intended for sale or for own needs of the companies

** Incl. OPEX, net of VAT

Source: Knight Frank St. Petersburg Research, 2016

Forecast

Circa 170 thousand sq m shall be put into operation until the end of 2016. More than half of them are intended for lease, a little less – for own needs of the companies and a small part – for sale.

Fort Tower is the largest Class A business centre expected for delivery, Graffiti – in Class B.

We do not rule out a possible decline in rents for Class B facilities owing to their large supply together with the expected introduction to the market of more than 50 thousand sq m intended for lease by the end of 2016.

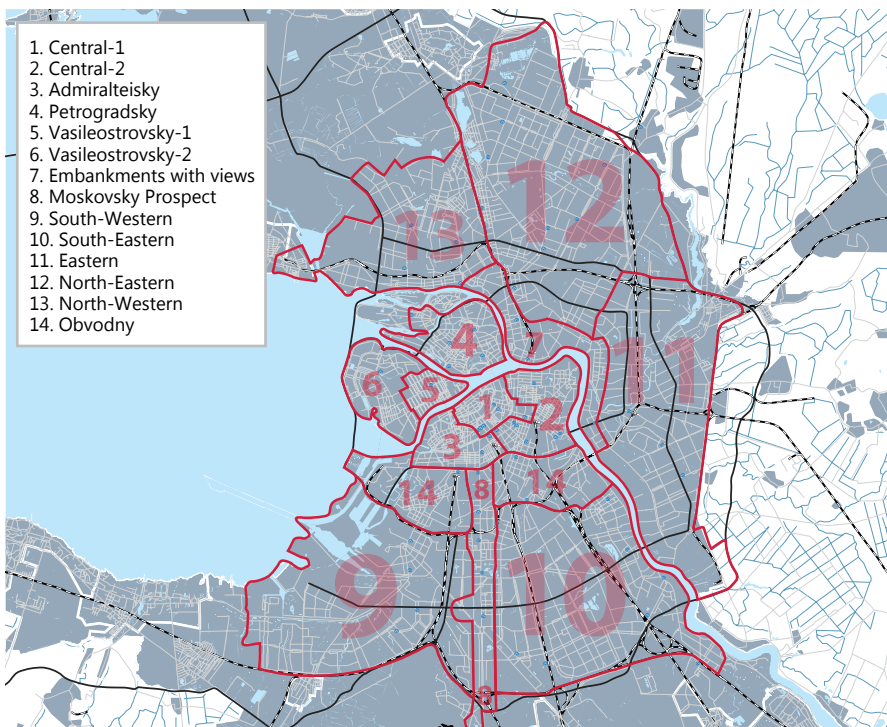
Average parking lease rate, Q2 2016

Class	Average lease rate* per 1 built-in parking lot, \$/year	Average lease rate* per 1 on-site and guarded parking lot, \$/year
A	1,415	1,148
B	1,162	681

* Incl. OPEX, net of VAT

Source: Knight Frank St. Petersburg Research, 2016

Business districts map of Saint Peterburg



Source: Knight Frank St. Petersburg Research, 2016

RESEARCH

Tamara Popova

Head of Department

tamara.popova@ru.knightfrank.com

OFFICES

Marina Puzanova

Head of Commercial Department

marina.puzanova@ru.knightfrank.com

+7 (812) 363 2222



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